Canada. Prices and incomes commission.

Press release.

1970

CANADA

Prices and incomes commission

Commission des prix et des revenus

Press release

January 13, 1970.

Statement by John H. Young, Chairman, Prices and Incomes Commission

The Commission has recognized from the beginning of its discussions with private interest groups that as soon as it became clear that a programme of restraint was possible, serious problems might arise from price increases announced in the interval before the formal institution of such a programme.

This timely action by the Federal Government removes this concern and is clearly a further indication of the government's determination to bring the present inflation under control.

- 30 -

Canada

January 14, 1970

Statement by John H. Young, Chairman

Prices and Incomes Commission

The Commission has now received letters from Mr. Leonard Wills, President of the Canadian Manufacturers Association, and from Mr. Allyn Taylor, President, and Mr. Donald Byers, Chairman of the Executive, of the Canadian Chamber of Commerce, in response to pricing criteria proposed to these bodies by the Commission for 1970.

The action taken by the Canadian Manufacturers Association and the Canadian Chamber of Commerce is welcomed by the Commission as a positive step by business leaders to deal with inflation.

The Commission recognizes that it has not been easy to reach a collective view and appreciates the serious efforts that have been made by all those concerned to come to grips with this difficult problem facing the whole economy.

The statements that have been received will now be carefully studied by the Commission and further steps will be announced as soon as possible.

CANADA

Prices and incomes commission

Commission des prix et des revenus

January 20, 1970.

Press release

NEWS RELEASE

National Conference on Price Stability,
February 9 - 10, 1970

A National Conference on Price Stability will be held in Ottawa February 9 - 10, 1970, John H. Young, Chairman of the Prices and Incomes Commission, announced today.

Leading representatives of the Canadian business community will be discussing specific pricing criteria for 1970 as part of a national program to bring the current inflation under control. It is expected that more than 250 delegates will attend.

The Commission has concluded, after consultations with the Canadian business community, that there is broad support for a price restraint program as a first step in slowing down the race between price and cost increases.

To the extent that business firms can show that price increases in 1970 are less than needed to cover cost

increases, efforts to persuade others of the need to restrain increases in wage and salary costs and other forms of income will be greatly strengthened.

The views of the business representatives will be sought on the Commission's plan to conduct price reviews on its own initiative and to ask for business co-operation in keeping it informed of price developments.

The Conference, to be held at the Canadian Government Conference Centre, will include sessions open to representatives of the news media. A full agenda and other details will be announced later.

Conference on Price Stability,
Ottawa, February 9 - 10, 1970

Background Paper

Why this conference is being held and what it is intended to achieve are best understood with some knowledge of the events which preceded it and of the further steps which it is hoped will follow from it.

The body which is sponsoring the conference, the Prices and Incomes Commission, is an independent agency established last June by the federal government "to inquire into and report upon the causes, processes and consequences of inflation and to inform those making current price and income decisions, the general public and the Government on how price stability may best be achieved".

On August 6th the Commission announced that a plan of concerted nation-wide action to restore price stability was under intensive exploration with the federal and provincial governments and with representatives of the business community, unions and other groups.

The basic idea on which this initiative was based was as follows. It seemed clear to the Commission that the governments both of Canada and of the United States had come to the conclusion - and rightly so - that they had no alternative but to bring the current inflation

to an end one way or another. Both governments were actively applying measures of credit and budgetary restraint designed to curb the growth of public and private spending in their economies. As these measures began to take hold, markets for goods and services could be expected to soften but, given the pervasiveness and momentum of the inflation and the strength of the inflationary psychology, it might well take a considerable time for price and income increases to slow down. In the meantime, it would be very difficult to avoid, perhaps for a protracted period, adverse side effects which no one wanted - an interruption in the growth of production in the economy, a serious profit squeeze and a temporary rise in unemployment.

It seemed to the Commission that a smoother, shorter and less painful transition back to price stability could be achieved if some way could be found to cut directly into the spiralling process of price and income increases with the object of slowing it down more rapidly than seemed likely otherwise. If this could be done, it might be possible to moderate government policies of budgetary and credit restraint earlier and soften some of their most painful side effects.

The Commission realized that it was quite unrealistic to expect any individual or group, acting alone, to take the initiative in offering co-operation.

It was conceivable, however, that a great many people and organizations would be willing to help, for a temporary period, as part of a nation-wide effort and in ways which had been worked out in consultation with representatives of all major elements in the community. Such a plan would mean working out a set of specific undertakings to be asked of business, labour, other private groups and governments, designed to achieve a substantial across-the-board scaling down of price and income increases during the coming year. Methods and procedures would also have to be devised for ensuring that the spirit of these undertakings was being observed in practice.

During the summer and early autumn the Commission held close to one hundred meetings of various kinds with representative groups of business men, labour leaders, government officials and others in an attempt to arrive at a comprehensive set of undertakings for which widespread support throughout the community could reasonably be expected.

This phase of the Commission's efforts came to an end on October 17th when the leaders of the two major trade union federations in Canada rejected as impractical any approach to the problem which incorporated an explicit formula limiting wage and salary increases. An alternative approach suggested

by the labour leaders was to concentrate on confining price increases to those which could be justified by a corresponding increase in the firm's total production costs including wage and salary increases.

In view of the position taken by the labour federations, the Commission decided to try a different tack - one that was not inconsistent with the general approach suggested by the trade union leaders.

The first step would be to try to work out, through informal consultation with business executives representative of various industries, specific criteria for business pricing policies during 1970 which, if widely observed, would result in fewer and smaller price increases than might occur otherwise. Such criteria would necessarily require of business firms a meaningful effort on their part to do as much to limit price increases as could reasonably be expected of them in the absence of corresponding restraints on wage, salary and other income increases.

If suitable criteria could be worked out at a national conference representative of all parts of the business community, the Commission would then ask business firms generally to observe such criteria in their pricing policies during 1970. It would also ask for the co-operation of major corporations

in keeping it informed in advance of developments in their pricing policies. The Commission would indicate its intention of conducting price reviews on its own initiative in various industries in order to determine whether or not these criteria were being observed. Its findings would be reported to the public and to the appropriate level of government for consideration of possible forms of sanctions in cases where the price increase could not be shown to be justified.

There would be opportunity in the course of such price reviews to examine the impact on prices of related cost developments including wage and salary increases. The Commission would be prepared to express a view on whether or not particular increases could be regarded as reasonable in the circumstances and consistent with the national interest.

In mid-January 1970 the Commission decided that sufficient progress had been made in the course of detailed discussions with business representatives over an extended period to justify proceeding with a national conference. The Commission received specific proposals both from The Canadian Manufacturers Association and from The Canadian Chamber of Commerce indicating the precise nature of the undertaking that the Executive Councils of these bodies were prepared to recommend to their member companies as a guide to their pricing policies during 1970.

The main points proposed by The Canadian Manufacturers Association were as follows.

"A company would be justified in raising a domestic price only if it found that, without such an increase, its net profit percentage on its entire sales anticipated for the year would show a decline, compared to some appropriate base period, or that the return on capital invested would be inadequate 'by any reasonable standard of comparison'.

"A company should reduce a domestic price if its net profit percentage on all sales would otherwise increase as a result of cost declines, and where, at the same time, the rate of return on capital invested was already adequate.

"If asked, firms would keep the commission informed of major changes in pricing policies, and would co-operate with the commission in price reviews."

The formula suggested by The Canadian Chamber of Commerce, though different in detail, was broadly similar. In the Chamber's proposal a member firm would raise the price of a particular product line only if it could demonstrate that without such an increase its net profit per unit of output, calculated on a standard volume of production or sales over its entire operations, would show a significant decline in 1970 compared with that of some appropriate base period, and it would reduce prices in cases where its net profit per unit of output over its entire operations would otherwise increase as a result of declines in unit costs.

In addition, the Chamber pointed out that some special problems would have to be recognized in applying a price restraint formula. For instance, one special problem that would need to be considered was that of products sold in export markets. Further discussions would be required in some instances to ensure that the Commission was able to obtain reasonable information to assist it in its price reviews. The Chamber did not agree with the suggested principle of requiring advance approval for proposed price changes but it was sure that business would co-operate with the Commission in any reviews of prices or price increases it might wish to make.

Specific proposals were also under consideration in discussions with the Retail Council of Canada covering major areas of grocery retailing, department and chain stores and general merchandising.

What is being asked of business firms in these undertakings is a degree of restraint in their pricing policies during 1970 beyond that which conditions in the markets in which they operate would require in any event.

It is intended that the specific character of the undertaking asked of firms in different areas of business and industry would be adapted to meet the special

requirements of those areas while conforming to the general principle outlined above. Undertakings would be asked of firms in all the major areas of domestic business where such undertakings were feasible, such as manufacturing, wholesale and retail trade, banking and finance, etc. The Commission recognizes, of course, that it would not be reasonable to expect such undertakings to be observed in export business or in areas of domestic business where firms have no discretionary control over either their costs or their prices, such as the construction industry where prices are established through competitive tender.

In administering the program and conducting its price reviews, the Commission will necessarily be giving special attention to the pricing policies of major firms which tend to be price leaders in their particular industry. Obviously, even with a considerably expanded staff of qualified people, the Commission will not be in a position to review the pricing decisions of anything like all the firms in the country. It will, however, be examining major price decisions in most important industries and it intends to be fair but exacting in its judgments of what constitutes reasonable compliance.

The Commission fully realizes, of course, that what it is asking of business firms puts them in the position of being called upon to take the first step in trying to slow down the race between price and income

increases, with only a hope rather than an assurance of the subsequent co-operation of other groups in the community. Obviously, however, by making it clear that they are prepared to forego for a time any attempt to add to their profits by raising prices, business men would be contributing greatly to the chances of successfully extending the restraint program to cover the whole community.

The results of the present conference will be reported to the federal and provincial governments, who will be asked to consider a number of possible ways of giving effective support to the efforts of business. The Commission will also be pursuing its discussions with other private groups in order to find an acceptable basis for their co-operation in the program, and it will be making an intensive effort to enlist the support of public opinion generally for the program as a whole.

It is not to be expected that a program of this kind, even if it should meet with a significant measure of success, could make it possible to bring the inflation to an end without any transitional difficulties for Canadians. It does, however, hold out the possibility of reducing these difficulties significantly and shortening the period of transition which lies immediately ahead.

ices and incomes commission

ommission des prix et des revenus

Wednesday, March 11, 1970.

Press release

REMARKS BY MR. J. H. YOUNG, CHAIRMAN, PRICES AND INCOMES COMMISSION ON THE RELEASE OF THE COMMISSION'S REPORT ON "STEEL AND INFLATION"

On October 29, 1969, the Prices and Incomes Commission announced that it had decided 'to undertake a fact-finding study of price, wage and cost increases in the Canadian steel industry'.

This decision followed price increases averaging approximately six per cent on three major steel product lines announced on October 24th. This was the second round of price increases in the steel industry during 1969 with prices having been increased in the spring on other product lines. In November a third series of price increases was announced which included the same products, the prices of which had been raised in the spring.

These price increases followed closely upon major wage settlements between two steel companies and the United Steelworkers of America, calling for increased hourly employment costs of about $1.30 over the life of a three-year agreement.

.../2

To a public already concerned with five years of rapidly rising living costs, these further price increases came as a particularly unpleasant shock. Prices were going up again and they wanted to know why. Accordingly, the Commission decided to dig into the facts.

In order to obtain the information it required, the Commission went directly to the steel producers which make 90 per cent of Canadian output of rolling mill products. Specific and detailed facts were obtained on steel prices, profits, financial performance, investments, material costs, labor costs and other pertinent aspects of the steel business.

In addition to the Commission's work with the companies, meetings were arranged with representatives of the United Steelworkers in order to obtain additional information.

After gathering and studying the information obtained from the companies and the union, the Commission concluded that the price and cost increases in the steel industry in 1969 were clearly inconsistent with reasonable price stability.

In 1970, the first full year in which the recent price and wage changes will become effective, average steel-making costs for the industry are estimated at $134.70 per ton. Using 1968 costs for purposes of comparison, this is an increase of $10.10 per ton, or eight per cent. Between

.../3

1968 and 1970, labor costs will rise from $36.80 to $41.50 per ton and other costs will increase from $87.80 to $93.20 per ton.

Anticipated average increases in 1970 revenue, due to 1969 price adjustments, are estimated to be $9.20 per ton. The price changes instituted by the industry in 1969 are likely to result in profits per ton of steel in 1970 of approximately the same level as 1968.

These and other facts obtained by the Commission show neither costs nor prices taking a commanding lead, but rather a process whereby continuing changes occur in both costs and prices during an inflationary period. Cost increases for steelmaking in recent years ranged between five and eight per cent compared with price increases of six to seven per cent.

Total labor cost per man-hour including wages, salaries, fringe benefits and compulsory government payments, is expected to increase by 30 per cent over the three-year period covered by the main labor agreements now in force. An increase of this size is well in excess of the four-per-cent average annual increase in output per man-hour which the industry experienced during the last decade. The result will be rising labor costs per ton in 1970, 1971 and 1972.

All other categories of steelmaking costs per ton are increasing as well.

.../4

It has also been found that these wage and other cost increases are being passed on to steel consumers. Price increases announced during 1969 are approximately in balance with cost increases between 1970 and the three prior years.

The benefits of productivity improvement in an industry may go entirely to its employees and shareholders in the form of higher wages and profits, or they may be shared in some degree with consumers through lower industry selling prices. If all prices in the economy were to rise at the same rate, wages or profits or both would rise more rapidly in the steel industry than in industries with little or no productivity improvement.

This way of dividing up the benefits of productivity improvement in the economy, however, could not be maintained indefinitely. Low-productivity industries would be faced with a growing need to match the large increases in steel wages and steel profits in order to retain or add to their supply of labor and capital. But in the steel industry the large increases in wages and profits would invite the entry of more and more labor and capital into steelmaking from other areas of the economy. In time the entry of new workers and new capital into steelmaking would bring about a growing surplus of steel and a slower rate of increase in steel prices, while a growing scarcity of other goods and services would bring

.../5

about a faster rate of price increase elsewhere in the economy. In effect, workers and shareholders in the steel industry would be compelled by longer-run market forces to share with the consumer, in the form of lagging steel prices, some part of the benefits available from rapid productivity improvement.

There is no valid economic reason which entitles workers in industries like steel to expect their wages to rise appreciably faster, over the long run, than the wages of workers of comparable skill in industries where productivity is growing more slowly. Nor can shareholders in industries like steel expect their return on capital to rise faster, over the long run, than profits in industries with less productivity growth.

The general price level is an average of the prices of goods and services produced over the whole range of industries and occupations. For the general price level to remain reasonably stable over time, prices in industries and occupations where rapid productivity improvement is feasible must be unchanged or declining in order to offset price increases in industries and occupations where there is little scope for such gains.

It should not be surprising that the behaviour of costs and prices in the steel industry in 1969 was inconsistent

.../6

with an early return to stability of prices generally. The recent level of demand for the products of the Canadian steel companies has been high relative to their productive capacity. In addition, during 1969 the Canadian steel industry found itself in an unusually strong competitive position vis-a-vis United States and off-shore suppliers with respect both to prices and delivery dates. In these circumstances the companies were able to pass on substantial cost increases to the consumer with little difficulty.

If government action to reduce the pressure of public and private spending throughout the economy had resulted in a marked weakening of demand for steel products during the course of 1969, it seems unlikely that such large wage and price increases would have occurred.

Alternatively, a more moderate softening of the market for steel products accompanied by a commitment on the part of both labor and management to limit their demands on the economy, as part of a general effort to scale down price and wage increases, could have achieved the same result with less adverse impact on output and employment.

Neither set of circumstances existed at the time when the major wage and price decisions were being taken in the steel industry. Thus there was no reason to expect that the decisions taken in this particular industry would be more

.../7

consistent with general price stability than those being taken at the same time in other areas of the economy.

The fact remains that during the last five years Canada has experienced the most serious and prolonged inflation of its modern peacetime history. As a result, the early restoration of price stability has become the most urgent short-term objective of national economic policy.

The challenge facing all of us is to find a generally acceptable way of scaling down price and income increases without paying an unnecessarily high price in terms of unemployment and lost output.

-30-

Prices and incomes commission

Commission des prix et des revenus

March 17, 1970.

For Immediate Release

News Release

The Prices and Incomes Commission has begun a price review into proposed increases in the price of tinplate. The Canadian producers, The Steel Co. of Canada Ltd. (Stelco), and Dominion Foundries and Steel Ltd. (Dofasco), have informed their customers that they propose to increase the prices of tinplate effective April 1, 1970.

On average, the proposed increase amounts to five per cent of the present selling price, although there are some variations depending on whether the product is sold in coils or cut sheets.

Tinplate is used in a number of applications, the most important of which is the manufacture of metal containers for foods and beverages.

The purpose of the review is to determine whether the price increases are clearly less that the amount needed to cover the increases in each producer's costs at a normal volume of operation. This is the basic principle agreed upon at the National Conference on Price Stability and subsequently endorsed by the Federal-Provincial Conference of First Ministers. The Commission has called upon all business firms in the country to observe this basic principle in their pricing policies during 1970.

The review of tinplate follows closely the release last week of the Commission's study of steel rolling mill products. It is envisaged that the present study, which is limited to one product line, will be completed in two or three weeks.

- 30 -

For Information: 995-7476

For Release: 2:00 p.m. E.S.T.,
April 14, 1970.

Trebla Building,
473 Albert Street,
Ottawa, Canada.

Tel.: 995-7319

Address delivered by
John H. Young,
Chairman,
Prices and Incomes Commission,
to the
Calgary Chamber of Commerce
and
Rotary Club,
Tuesday, April 14, 1970.

Calgary, Alberta.

What I want to talk about today is the size of pay increases that those of us who earn a wage or a salary can reasonably look forward to over the next year or so if we are to make decisive progress here in Canada in slowing down the rise in prices.

Perhaps as good a starting point as any would be to summarize very briefly where things stand at present in the fight against inflation. I am sure that no one here today needs to be reminded that the inflation we have been experiencing for more than five years now has been the most severe and protracted episode of its kind since the Korean War in 1950-51 and that consumer prices have recently been running at about 4½ per cent above the levels of a year ago. For some time now, both here and in the United States, government measures have been in place which are designed to bring the inflation under control by restricting the growth of public and private spending.

The effects of these measures have been slow to appear, but in recent months their impact has become increasingly visible. The softening sales picture which has been apparent for some time in industries such as automobiles has begun to affect a wider area of business activity. Caught between the pressure of continuing cost increases and these more difficult market conditions,

many businesses are experiencing a growing squeeze on profits which was foreshadowed several months ago by the weakening trend of prices on the stock market. The sluggishness of sales volume has been reflected in a levelling out of industrial production and employment together with some tendency for the unemployment rate to creep upward. There is as yet little evidence that prices are rising less rapidly, but it does look as though the rate of price increase is at least no longer accelerating.

Apart from these signs that the forces of inflation both here and in the United States are gradually being tempered by the change in economic conditions, we have an additional element in the situation in Canada in the form of the price restraint program which emerged a few weeks ago from the National Conference on Price Stability and the subsequent Federal-Provincial Conference of First Ministers. Business firms, farm and professional groups and governments now have joined together to try to reduce the number and size of price increases that would normally occur in 1970 by ensuring that

any price increases are clearly less than the amount needed to cover increases in costs. The Prices and Incomes Commission is conducting a growing number of price reviews to check on observance of this principle in business pricing policies.

Lest anyone should think that all this adds up to more than a mildly encouraging beginning in bringing inflation under control, let me hasten to point out that one of the remaining elements in the picture, without which there can be no real turn in the tide of inflation, is still something of a question mark. I am referring, of course, to the need for a substantial moderation of the size of wage and salary increases below the levels of those granted in recent months.

There are already some faint signs that the softening of markets for goods and labor (and, hopefully, the efforts of business and governments to hold down price increases together with the Commission's developing public information program) are beginning to have some sobering effect on attitudes toward prospective pay increases for

salaried employees and wage earners. At the moment, however, signs of more realistic behavior in such matters are still rather few and far between, and the prospective trend of labor costs continues to cast a disturbing shadow over the near-term outlook for production and employment in Canada. The chances of making substantial progress on this front have not been helped by the continued refusal of the leadership of the major trade union federations to see any good reason for the exercise of wage restraint by union members as part of the over-all program to overcome inflation.

The Department of Labor maintains statistics of the average annual percentage increase in rates of pay provided for in collective bargaining agreements involving 500 employees or more over a wide range of industries. During 1969 the average annual pay increase over the life of such contracts was almost eight per cent. In contracts signed in the fourth quarter of the year the average increase was almost nine per cent over the life of the contracts and even higher over the first year of such contracts. The figures that I am referring to do not include wage settlements in the construction industry which have recently been running substantially above those elsewhere.

I want to emphasize that the figures I have quoted are averages. Some settlements have been significantly below these figures but others have been quite a bit higher. The disturbing thing is that increases of this magnitude have come to be widely regarded as reasonable and normal in present circumstances and that they are being granted very generally to unorganized wage earners and to salaried employees as well as to organized labor. In building average pay increases of this magnitude into our costs of production for as long as three years into the future, there can be no question but that we are compounding our economic troubles. The size of these increases is obviously much too high to be consistent with any early return to price stability.

What is the government to do if pay increases of this magnitude continue to be granted and employers seek to pass on to the consumer the resulting increase in their labor costs in the form of continuing large price increases? If the government allows pay increases of this size to be floated off by easing up on its spending restraints, the inflation of prices can only gather renewed strength and momentum. If the government - rightly in the Commission's judgment - feels that this cannot be allowed to happen

and that it must persist with its efforts to bring inflation under control, business firms will not be able to maintain their present levels of sales and output at these inflated levels of costs and prices. The end result, however, might well be a loss of production and jobs over the next year or two which can be avoided given more reasonable behavior by all concerned.

It seems to me, in short, that common sense argues against the continuation of pay increases of the magnitude that have become typical these days. In the context of a determined effort to overcome this inflation, such increases threaten to inflict a quite unnecessary degree of hardship on many Canadians who stand to lose their jobs as a consequence.

If pay increases averaging eight, nine or 10 per cent are regarded as incompatible with any significant reduction in the size of price increases, how does one go about judging what size of pay increase on the average would make more sense over the next year or two if inflation is to be overcome? Any discussion of this question must necessarily start with certain fundamental notions about the relationship between increases in output per person employed, wages and salaries per person employed and the price level.

Perhaps the place to start is by making clear the distinction between apparent increases in income and real increases in income. Those who have received substantial pay increases in recent years are well aware of the fact that their real level of economic well-being has not risen nearly as rapidly as the number of dollars at their disposal each payday. The reason is, of course, that although the number of dollars they have to spend keeps rising, the quantity of goods and services that each of these dollars will buy keeps shrinking. This means that the pay increases people have received in recent years have been partly illusory because much of their real value has been cancelled out by the rise in prices.

Indeed, if people ask themselves what is the source of any real improvement in average levels of economic well-being, they should have no difficulty in seeing that it is the increase each year in what those who work produce in total that enables us to become collectively better off. If we look at it in terms of over-all averages, it should not be hard to see that the average real income of people engaged in the productive process can rise each year by the average

increase in the quantity of goods and services that they help produce. Indeed, we can attach ball-park numbers to these quantities, based on typical Canadian experience over recent years. On the average the real output of the Canadian economy has tended to grow at something like five per cent a year, while the number of people employed has tended to rise at something like 2½ per cent a year. On the average, therefore, we can expect real output per person employed to rise in a typical year by about 2½ per cent and to that extent - and no more unless our average productivity improves - the average wage or salary earner can be better off in a meaningful sense.

There is, of course, one qualification which can be of some importance over short periods, but which does not seem to have been very important over any long period of our history. The total amount of goods and services that is produced in the economy is divided up not only among wage and salary earners, but also among owners who receive other forms of income such as profits, interest, rents, etc. It is conceivable that the average increase in the real income of wage and salary earners could rise more rapidly than the average increase in output per worker if employees as a group were successful in getting a larger slice of the total economic pie at the same time as the size of the pie itself was gradually

increasing. Indeed, this is what seems to be happening right now, with wage and salary income increasing in part at least at the expense of business profits. In other years, of course, the reverse has been the case. There are a number of difficult statistical problems in attempting to establish exactly what has happened to the share of employee income in total income over the last 15 or 20 years. On the basis of such figures as are available, however, we can be reasonably sure that there has been a tendency for wage and salary earners to enjoy a larger share of the total output of the economy, though there is room for argument about precisely how large the increase has been.

In any event, it doesn't seem very realistic for wage and salary earners to expect a large increase in their real incomes at the expense of corporate profits on any lasting basis. For one thing, profits are only about one-sixth the size of employee income, so that it would take a sizeable reduction indeed in profits to make the average wage and salary earner significantly better off. The other reason is that if the average rate of return to owners of capital were to decline substantially for very long, the logical result would be a gradual drying up of new investment in Canada, together with a growing diversion of capital into investment in other countries where the return was more

attractive. (I would emphasize that I am referring here to the rate of return on investment, not to the amount of earnings retained within business enterprises, which is quite a different matter.)

With smaller injections of new capital investment, it would not be possible to continue to have annual increases in output per person employed in this country of even as much as 2½ per cent. I think we can take it as a reasonable approximation of the situation we face, then, that the average size of increases in the real income of wage and salary earners in Canada that are possible on a continuing basis, without a marked improvement in the growth of productivity, cannot be much more than 2½ per cent a year.

An interesting implication of this figure which some people fail to recognize is that average annual wage and salary increases of this amount would be compatible with an unchanged price level. People with jobs could get an average pay increase of 2½ per cent, but there would be 2½ per cent more goods and services per person employed to go around, so that prices would not have to rise.

What happens, though, if wages and salaries increase on average not by 2½ per cent but by seven per cent or more as they have recently? The answer is that even with a profits squeeze the

price level has to rise by something like 4½ per cent, as it has been doing recently, in order to make the situation add up. People have seven per cent more dollars to spend, but each of these dollars buys 4½ per cent less, and they end up with something close to the same old 2½ per cent average increase in their real incomes which is all that the economy can deliver on the basis of the normal growth in productivity. For those who are doubtful about this propostion it is not very difficult to produce the figures which confirm this result over a period of many years. The essential point is that taking one year with another the average size of wage and salary increases has much more to do with the rate of increase in the price level than with the rate at which wage and salary earners become better off in any real sense.

It is instructive to compare the increases that are currently taking place in prices and in rates of pay with the situation that we are hoping to get to over the next couple of years. At the present time average wage and salary earnings per person employed are rising a little more than seven per cent a year and prices at close to 4½ per cent. If the rate of price increase is eventually to be slowed down to a figure as low as 1½ per cent a year, it is obvious that the average annual pay increase consistent with such a low rate of inflation cannot be much higher than four per cent a year. Nobody

expects this to happen overnight, of course, but pay increases of this magnitude were the rule rather than the exception in the early years of the present decade when prices were rising at one to $1\frac{1}{2}$ per cent annually. The interesting thing to note is, however, that if there is a broadly parallel reduction in the size both of pay increases and of price increases, the improvement in the real level of economic well-being of the average wage and salary earner can be just as large as it ever was.

Of course the rate at which wage and salary earnings are currently rising is to a considerable extent a reflection of increases in rates of pay granted last year and the year before, just as the size of wage and salary increases granted today will largely determine how rapidly labor costs rise over the next year or two. Clearly, if we are to begin making substantial progress in slowing down the rate of increase in prices over the months ahead, the typical size of pay increases granted both to organized and non-organized wage and salary earners will have to come down very substantially from current levels.

Broadly speaking, there are two ways in which this could happen. The first is through the continuation of such severe spending restraints that employees find themselves increasingly compelled to accept smaller pay increases as a result of the combined pressure of growing unemployment, a severe squeeze on profits and bitter industrial disputes.

The other way is through a growing awareness and acceptance on the part of wage and salary earners that it is only common sense on their part to exercise restraint in the matter of pay increases, as part of a larger program of restraint on increases in other forms of income and in prices. To the extent that the necessary scaling down of wage and salary increases can be accomplished in this way, it will be possible to make more rapid progress in bringing inflation under control, and to do it with less economic disruption and unemployment than might otherwise occur.

Common sense and realism are valuable qualities, and we are certainly going to need all we can get of these qualities on the part of wage and salary earners and their employers in their consideration

of how large pay increases should be in the months ahead. But common sense and realism may not be enough. Perhaps what is also needed is a keener awareness of, and regard for, the difficult position of those for whom what is at stake is not just the size of their prospective raise in pay, but their chance of having a job at all.

- 30 -

CANADA

Prices and incomes commission

Commission des prix et des revenus

April 23, 1970

NEWS RELEASE

The Prices and Incomes Commission will proceed immediately with a review of the copper price situation as it affects Canadian users of copper products as well as copper fabricators and producers.

On February 27, 1970, the Commission stated that it would keep the position of the entire copper industry under review during 1970 as part of its continuing surveillance of developments in export industries.

Copper is an important export commodity but at the same time one where the bulk of domestic consumption has been supplied over the last several years at a Canadian price substantially below the world price. About 60 per cent of Canadian copper production is exported for sale at world prices, but large quantities are also used by Canadian fabricators and manufacturers in their domestic operations.

Since January, 1969, the price of refined copper has increased substantially both on world markets and in the Canadian market. The present Canadian domestic price is 30 per cent above that of January 1, 1969. However, at 59 cents it now is some six cents per pound less than the domestic producer price in the United States and much below the world price. Copper producers have stated their desire to

increase the domestic price in Canada to the same level as in the United States, which was recently increased to the equivalent of (Cdn.) 65 cents per pound. The Canadian government has prevailed upon the industry not to introduce further increases at this time.

The Commission will undertake an immediate review of the impact which price increases for refined copper have had on the costs of domestic fabricators and manufacturers of copper products. It will also study the possible effects of further increases in the price of refined copper.

As part of this study the Commission will also review any price increases by copper fabricators to determine whether they meet the Commission's general pricing criteria.

The Commission recognizes that the extent to which the domestic price of copper can be maintained below the world price is subject to practical limits because of the serious problems of supply allocation posed by any multiple-price system. This aspect of the copper price situation will also be considered in the forthcoming review.

The study will make possible a detailed assessment of the impact of the present copper price situation both on the domestic price restraint program and on the position of domestic copper producers and fabricators.

For Information: 995-7476

CANADA

Prices and incomes commission

Commission des prix et des revenus

FOR IMMEDIATE RELEASE

April 24, 1970.

NEWS RELEASE

Following meetings with the Prices and Incomes Commission, the Aluminum Co. of Canada (Alcan) will not increase the prices of aluminum ingots and semi-fabricated products to its customers in Canada.

In recent weeks a number of leading producers of aluminum in the United States have announced price increases for primary ingots. Alcan followed these firms in announcing price increases for its ingot sales outside Canada.

In the course of discussions with representatives of Alcan, consideration was given to the impact which price increases for domestic sales of ingot and semi-fabricated products would have on the Canadian program of reducing the number and size of price increases. The Commission strongly expressed the opinion that higher domestic aluminum prices would be harmful to the national program of price restraint and would therefore not be opportune.

Under the circumstances, the company has agreed not to increase its prices to its customers in Canada.

— 30 —

For Information: 995-7476

For Immediate Release

ices and incomes commission

ommission des prix et des revenus

April 27, 1970.

NEWS RELEASE

The Prices and Incomes Commission will proceed immediately with a price review into an increase in the price of tin containers. The main producers, American Can of Canada Ltd. and Continental Can Co. of Canada Ltd., have informed their customers that prices for tin containers have been increased by approximately five per cent.

The companies state that the price increase is necessary because of higher costs for tin plate and increases in other cost factors. Tin cans are used mainly by the food-processing and the beverage industries.

The purpose of the review is to determine whether the price increase is clearly less than the amount needed to cover the increases in each producer's costs in 1970.

Preliminary discussions have already been held between representatives of the Commission and the two companies.

For Information: 995-7476.

- 30 -

DA

rices and incomes commission

ommission des prix et des revenus

FOR RELEASE: 8 p.m. EDT,
Saturday, May 2, 1970.

Trebla Building
473 Albert Street,
Ottawa, Canada.

Tel. 995-7476

Address delivered by
John H. Young,
Chairman,
Prices and Incomes Commission,
to the
Ontario Federation of Printing Trade Unions,
Saturday, May 2, 1970.

Ottawa, Ontario.

I want to begin my remarks today by talking for a few minutes about the choices that are open to this country in dealing with the problem of inflation. The substance of what I have to say is that the only choices available are hard ones. There is no easy way out.

The background of our present difficulties in controlling the rise in prices is not difficult to summarize. During the first half of the '60s and much of the previous decade inflation was not a serious problem, in the sense that the increase in the price level in most years was at a nominal rate of one to two per cent.

Beginning about 1965, prices began to rise more rapidly. What started the process was that the total amount of money being spent in the economy was allowed to rise too fast for production and employment to keep up. Business began to spend more heavily on new buildings and equipment, consumers on new houses and automobiles, governments on public services and social benefits. In the United States, military spending increased sharply.

The result was a seller's market at home and rising prices abroad, both pushing up the price level in Canada. Higher profits led to stepped-up wage and salary demands, and prices were increased further to cover the resulting pay increases. Higher taxes, rents and interest rates led to still higher price and pay increases. And this race between rising prices and rising incomes is still with us today.

The pace of inflation has quickened considerably over the intervening years since 1965. The price level today is about 4½ per cent higher than it was 12 months ago and more than 20 per cent higher than it was five years ago. We now are well into the sixth year of the most sustained and serious bout of inflation of recent memory.

Now the escalation of the rate of price increase that has occurred over the last five years does not mean that the end of the world is at hand. It should, however, make any thoughtful person wonder what is to prevent a further speeding-up of the rate of inflation over the next five years, and what that might lead to - let alone how the process can be turned around so that we can move back toward a more stable price level.

There is no denying that the rapid decline in the buying power of money over the last five years has victimized those Canadians least able to protect themselves against the rise in the cost of living. At the same time it has put a heavy strain on many of our existing economic arrangements which work well only on the basis of some confidence that money will retain its buying power over time.

A prime example is the collective bargaining process, which becomes a very uncertain game when it is conducted on the basis of rubber dollars. Another important example is long-term lending and borrowing, the traditional means of financing investment in social capital by provinces, municipalities and other public bodies. How is either the lender or the borrower to know what is a realistic interest rate for a loan which will be repaid several years later in dollars of quite uncertain value? And if they can't be at all sure about the degree of risk involved, can they afford to enter into such loan contracts at all?

It is sometimes argued that inflation, despite the injustices and inconveniences it causes, is a necessary evil which must be accepted if we are to enjoy as high a

level of employment and as high a rate of growth in output as the economy is capable of producing. This argument has some plausibility in the short run, but is a very dubious proposition in economics if we are thinking in longer-run terms. It works this way only as long as people keep being fooled by prices rising more than they had expected. Over a period of five or 10 years, it is very doubtful whether larger gains in employment and output can be achieved by putting up with a big increase in prices than could be achieved equally well with a more stable price level.

I believe that most Canadians sense that it would be pointless and risky, as well as unfair, not to try quite hard to get inflation under better control over the next five years than it has been over the last five. Indeed, it seems to me that we should consider rather carefully what the consequences might be if the present efforts to check inflation in Canada and the United States were to be abandoned before a decisive change in the recent trend of prices has been achieved. A demonstration that inflation in North America had finally gotten beyond anyone's ability to control it would put us into an entirely new ball game. But I don't think the common sense of ordinary people will allow this to happen.

Granted, then, that we have no alternative but to bring the present inflation under control, what are the problems that must be faced in doing so?

The first is that prices are still rising rapidly in many other countries with whom we have close economic ties, including the United States. As long as this is the case, there can be no doubt that it is much harder to make rapid progress in overcoming inflation in Canada. There are, however, at least two grounds for feeling some encouragement on this score. The first is that for some time now we have managed to achieve a lower rate of increase in consumer prices in Canada than has occurred in the United States. The second is that the rate of price increase in the United States has now levelled off and soon seems likely to decline as a result of efforts to check inflation in that country.

There remains, however, another and in many ways the most perplexing difficulty in getting back towards price stability in Canada. That is how to mount an effective attack against a pervasive and deeply-entrenched inflation with a minimum of social cost over the next year or two. By social cost I mean a temporary rise in unemployment and slowdown in production.

Let us examine the nature of this dilemma a little more closely.

How can the rise in prices be checked? The simplest way to come at the answer to that question is to ask under what circumstances firms are normally deterred from putting up their prices. The answer is of course that if the market for what they produce is soft enough, the fear of losing sales to their domestic or foreign competitors will provide a strong reason for not trying to raise their prices. Thus the normal route by which government economic policy is brought to bear in order to stabilize prices is by restricting the growth of public and private spending. Measures of this kind have in fact been at work in both Canada and the United States for many months now and have clearly begun to have a marked effect on the business climate.

The sequence of events that is expected from such measures is roughly as follows. A weakening sales picture makes it more difficult for firms to increase or maintain prices. The increased difficulty of passing on

increases in production costs to the consumer squeezes business profit margins. As a result, business firms take steps to check the rise in their costs. Since labor costs account for such a large proportion of total production costs in many cases, firms become less willing to grant wage and salary increases of the size that have become common in the recent past. The money incomes of wage and salary earners grow more slowly, but this is offset by the fact that prices are also rising more slowly. Thus in terms of their real buying power the earnings of the average employee continue to grow at much the same rate as they were growing under inflationary conditions.

The difficulty with this approach, however, is that initially at least the upward march of prices and costs is unlikely to be checked very much, while the growth of production and employment is likely to be adversely affected. For a time at least, in the face of softer market conditions, most firms prefer to try to maintain or increase their prices in order to protect their profit margins, even though experiencing a decline in sales and production volume which they hope will be temporary. And the attempt by employers to slow down the rise in their labor costs is likely to meet with strong resistance on the part of wage and salary earners who don't want to be the first

to accept smaller pay increases. That's why government action to check the rise in prices seems to be so slow in achieving the desired results, while in the meantime production levels out and unemployment rises.

Now it's true that if the government persists in holding down the growth of public and private spending in the economy, the size of price and cost increases will decline eventually. Meanwhile, however, the government will be held responsible for the temporary slow-down in economic activity and the rise in unemployment, and will be under mounting pressure to lift its restrictions on spending.

The problem for government policy in attempting to bring a strongly entrenched inflation under control thus involves hard choices. On the one hand there is the risk of re-stimulating the economy too soon or too strongly, so that the inflation is not decisively checked and soon gains renewed momentum. On the other hand, there is the risk that the restrictions will be pressed too hard or kept on too long and the country will pay an exorbitant price in terms of lost

production and unemployment for bringing the inflation to an end.

It is because the well-known and readily available methods of bringing inflation under control produce such undesirable temporary side effects on employment and output that governments are anxious to find other effective methods that are less costly. The search for some more direct way of bringing a restraining influence to bear on cost and price increases - a way that does not of itself reduce employment or output - is the major challenge facing the Prices and Incomes Commission. But it is also the challenge facing the country as a whole and, indeed, virtually every industrialized country in the western world.

The first tangible results of the Commission's efforts to date along these lines emerged several weeks ago from the National Conference on Price Stability and the subsequent Federal-Provincial Conference of First Ministers. It was agreed at these conferences that business firms should be called upon to reduce the number and size of price increases they would normally make in 1970, by ensuring that any price increases are clearly less than the amount needed to cover increases

in costs. This principle has been widely supported by business, farm and professional groups and by governments, and the Prices and Incomes Commission is conducting a growing number of price reviews to check on its observance in business pricing policies. In the course of these reviews, the Commission is making its judgments on the basis of exacting standards, and is relying on the powers of persuasion available to governments to ensure compliance. Efforts are also being made to extend the principle of price restraint into areas such as loan charges, professional fees and rents.

What has been achieved so far, however, is merely a beginning, and the real test of the approach being followed by the Commission will be whether some effective means can be found to bring about an early scaling-down of wage and salary increases as well.

The Commission takes the view that, as a matter of simple arithmetic, it will be next to impossible to achieve an early and substantial reduction in the size of price increases without a significant scaling-down of the size of wage and salary increases. The basis for

this view is, of course, that labor costs are much the most important single element in costs of production.

If the cost of the labor required to produce a given quantity of goods and services in Canada is not to rise, the average annual increase in money income per person employed must not exceed the average annual increase in output per employee (commonly known as productivity). Over the last several years the average productivity increase in Canada has been running at something like $2\frac{1}{2}$ per cent annually, though in any particular year it may be somewhat above or below this figure. In periods of rather sluggish economic activity, such as the year 1970 seems likely to be, the increase in national productivity is typically somewhat below the long-term average.

For some time now wages and salaries have been rising much faster, on average, than this trend rate of national productivity improvement of about $2\frac{1}{2}$ per cent per year. In 1969, for example, average wage and salary earnings rose by more than seven per cent. In the fourth quarter of 1969 the average size of annual pay increases granted under major collective bargaining agreements was running at almost nine per cent over the life of these contracts, some of which covered a period of as long as three years into the future. The result has been - and will continue

to be for some time ahead - a disturbingly sharp rise in the labor cost of producing the nation's output of goods and services. And it should not be surprising that producers, faced with such increases in labor costs, are not able to absorb them indefinitely and are forced to raise prices where market conditions permit. The end result of the process is the cancelling out, through higher prices, of that part of wage and salary increases which is in excess of the average gain in productivity.

It can be argued, of course, that the process needn't work out this way if the pay increases to employees could be absorbed entirely out of a decline in other forms of income such as business profits. On the basis of past experience, the scope for this is distinctly limited. In particular, it would seem that the share of labor income in total income from the sale of goods and services is unlikely, on the basis of historical experience, to change sharply except on a very short-run and temporary basis. At the moment, for example, wage and salary income seems to account for a larger proportion of total income than it has for many years, but this is associated with a profit squeeze for many firms which is most unlikely to be acceptable to business over any extended period.

The Commission's attitude in this matter is not based on any view that organized labor in particular, or even wage and salary earners as a whole, bear some special degree of responsibility for getting the country into its present inflationary situation. Neither does the fact that the Commission is pressing businessmen to moderate their price increases indicate a view that business bears some special degree of responsibility for the inflation.

It is equally the case, however, that no group in the community can exempt itself from all responsibility for helping find a constructive way out of the country's present inflationary predicament. Every group in the community without exception - employees, employers, the self-employed, the landlords, the lenders and investors, the various levels of government - transmits inflationary impulses as well as receives them. This is because the price each of us puts on our services or products affects not only our own income but someone else's costs.

As long as businessmen feel that they can expect no moderation in the rate at which their labor costs have been increasing, they will be reluctant to moderate the size of their price increases. And as long as wage and salary earners feel they can expect no moderation in the rate at which their cost of living has been rising as a

result of higher prices, they will be reluctant to accede to more moderate pay increases.

This is a vicious circle, and if the government were left with no other option than to break it through the compulsion of market forces, the main victims would not be the majority of businessmen or wage and salary earners who were thereby forced to accept somewhat smaller price or pay increases. The more probable victims would be the young who couldn't find a first job and older workers who were laid off because the skills they possessed were least in demand.

Some people think the only realistic choice we have is between letting something like that happen and simply giving up the effort to control the rate at which costs and prices rise in Canada. I don't. I believe there is still to be found and mobilized in ordinary people from all ranks in the community the good sense and desire to co-operate that alone can make possible a constructive solution to the dilemma posed by inflation.

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Release: 2:00 p.m.
May 5, 1970.

Trebla Building,
473 Albert Street,
Ottawa, Canada.

Tel.: 995-7476

NEWS RELEASE

Speaking before La Chambre de Commerce de Montreal (Mount Royal Hotel) Paul Gérin-Lajoie, Vice-Chairman of the Prices and Incomes Commission said the continued unwillingness of the unions to participate in the Commission's anti-inflationary program hinders the efforts of the rest of society to combat inflation. He told La Chambre that the co-operation of all Canadians was essential to the success of the effort to control inflation and appealed for the support of professional and business organizations and unions.

CANADA

Prices and incomes commission

Commission des prix et des revenus

May 5, 1970.

NEWS RELEASE

The Prices and Incomes Commission will proceed with reviews related to increases in prices for coffee, rubber tires, fine papers and duplicating services and supplies.

The Commission has initiated a review of the increase in the price of coffee. The review will cover all price increases in coffee in the last few months. The Commission is aware that the cost of green coffee beans has increased considerably in recent months due primarily to a major crop failure in Brazil. The purpose of the review is to ensure that the increase in revenues is clearly less than the increase in costs of beans and other factors.

During the last three months certain tire manufacturers have announced price increases, at the wholesale level, ranging up to 2½ per cent. The companies state that the increases

.../2

are necessary because of higher costs of labor, materials and freight. Preliminary discussions have already been held between representatives of the Commission and the companies.

Manufacturers of fine papers have announced price increases ranging up to four per cent on selected grades of paper. They stated that higher costs of pulp and labor have made these increases necessary. All six producers of fine papers in Canada have increased their prices.

Price increases implemented recently by a national distributor of duplicating equipment and supplies are being reviewed by the Commission. The company involved is co-operating with the Commission in determining the relationship between the price increases and the pricing criteria.

The Commission is also studying price increases in railway freight rates, glass containers, tin containers and copper. In addition, preliminary reviews are being made over a wide range of goods and services.

CANADA

Prices and incomes commission

Commission des prix et des revenus

FOR RELEASE: 2 p.m. EDT.,
Wednesday, May 6, 1970.

Trebla Building,
473 Albert Street,
Ottawa, Canada.

Tel. 995-7476

Address delivered by
John H. Young,
Chairman,
Prices and Incomes Commission,
to the Joint Annual Luncheon of
The Canadian Manufacturers' Association
(Quebec Division and Montreal District Branch),
Wednesday, May 6, 1970.

Montreal, Quebec

Productivity and Inflation

Je voudrais, aujourd'hui, faire quelques commentaires sur certains aspects des difficultés que le Canada éprouve à maîtriser l'inflation, les grandes dimensions du problème, le dilemne qu'il pose du point de vue de la ligne de conduite à adopter et certaines considérations essentielles en ce qui concerne la tendance des prix, des coûts et de la productivité, tendance à laquelle il faudra trouver une solution au cours des mois à venir.

Permettez-moi de m'arrêter tout d'abord aux dimensions du problème. Si l'on se reporte aux vingt dernières années, on voit que l'inflation n'a pas constitué un problème grave pour le Canada en dehors de trois manifestations distinctes, la manifestation actuelle étant sans contredit la plus grave du point de vue de la durée, de l'étendue et des répercussions sur les attitudes et le comportement de la population.

Lorsque nous avons eu de l'inflation en 1950-1951, au moment de la guerre de Corée, l'épisode fut extrêmement marqué mais d'assez courte durée. Vers le milieu des années 50, une autre poussée d'inflation a accompagné l'emballement des investissements, mais elle ne fut ni aussi sérieuse ni aussi prolongée que l'inflation dont souffre le pays depuis quelques années. En dehors de ces deux épisodes, le Canada a, en général, connu des taux de hausse assez réduits, qui sont restés en moyenne de l'ordre de 1.5% par année.

Over the most recent four-year period 1965 to 1969, by way of contrast, the Consumer Price Index as a whole has risen at an average annual rate of four per cent. The component of the index measuring the increase in shelter costs has risen at an average rate of 5.2 per cent annually, and that for services other than shelter at a rate of 5.4 per cent annually. In both of these areas, in other words, prices have been rising appreciably faster than have consumer prices generally.

The opposite side of the story is to be found in the area of goods prices, where the average annual rates of increase over the period have been 3.8 per cent for food, 3.6 per cent for non-durable goods other than food, and only 1.5 per cent for durable goods.

It is sometimes argued on the basis of this general pattern of price increase that the present inflation is not a widespread phenomenon, but rather one that reflects strong upward price pressures in a few limited areas such as shelter and services. On this

view, goods prices in general - and durable goods prices in particular - have contributed little to the present high rate of inflation.

It seems to me that this comforting view of the situation is open to serious question. Even when the rate of increase in the Consumer Price Index as a whole was only 1.8 per cent annually, as was the case on average over the four-year period 1961 to 1965, the pattern was much the same as it has been more recently. The component price index for services other than shelter rose during this period at an average rate of 3.5 per cent annually - again significantly faster than the total index - while that for non-durable goods was rising at 1.2 per cent a year. Indeed, the durable goods index was actually on a declining trend at an average rate of almost one-half of one per cent per year.

The explanation for this persistent pattern is that goods-producing industries, especially durables, tend to have well-above-average rates of productivity improvement, and thus considerable scope for cost absorption, while the opposite situation tends to prevail in the service industries. This being the case, the present upward trend in durable goods prices - moderate

though it is - can scarcely be regarded as compatible with reasonable stability of the over-all price level, which would seem to require declining prices in the durables area in order to offset unavoidable increases in areas such as services.

The evidence as I see it leads to the conclusion that the acceleration of the rate of consumer price increase during the last four years has occurred to much the same extent in all major areas other than food, which has lagged a bit, and shelter, which has moved out well in front. Even in the latter case, the upsurge in the shelter price index is not simply an isolated example of demand for housing outrunning the supply. It also reflects the impact of pervasive inflationary pressures and expectations on the level of such major cost elements as mortgage interest rates, land values, construction labor and materials and property taxes.

This is one way of looking at the dimensions of our current inflation problem. An alternative way is to note that over the four-year period 1961 to 1965 average wage and salary earnings rose at an average annual rate of a little more than four per cent while

consumer prices rose at an average annual rate of a little above 1½ per cent. By 1969 average wage and salary earnings were rising by more than seven per cent a year; this was associated with a rise in the price level of 4½ per cent a year. In the first quarter of 1970 the average size of wage and salary increases granted under major collective agreements was running at 9.1 per cent over the life of these contracts, some of which covered a period of as long as three years ahead. Many of the wage and salary increases being granted today are even higher than this average figure, and few if any are as low as the four per cent figure which was typical during the years of relatively stable prices earlier in the decade.

In short, then, the magnitude of the problem we face in restoring reasonable price stability is to cut back the rate of increase in the price level from 4½ per cent a year to a figure more like 1½ per cent, and this will require a corresponding cutback in the rate of increase of wage and salary earnings from over seven per cent a year to around four per cent. Indeed, with strongly entrenched expectations that a raise in pay for the coming year of nine per cent is only fair

and reasonable in present circumstances, an even greater downward adjustment will have to occur in the average size of pay increases currently being granted both to many groups of salaried employees and to unionized wage-earners under collective agreements.

The relationship between increases in rates of pay, productivity and prices deserves closer examination.

The basic source of improvement in levels of economic well-being in Canada is, of course, the extent of the increase in the nation's output of goods and services. Since the size of the population and of the work force is also rising, it is the increase in real output per capita or per person employed which is the relevant source of improvement in average living standards. At the present time the rate of price increase reflects the gap between the rate of increase in output per person employed and the rate of increase in income per person employed. There are really only two ways of closing this gap. We can reduce the average size of wage and salary increases, and we can raise the average size of increases in output per person employed. To achieve a scaling-down of pay increases will be difficult,

and it is likely to be even more difficult to achieve a sharply higher rate of productivity improvement quickly. Indeed, the average rate of productivity increase in 1970 seems likely to be below the long-term average because of the slowing down of the pace of economic activity.

Although productivity increase is typically measured in terms of the increase in output per man-year or per man-hour, it would be a mistake to assume that it arises only from improvements in the skill, organization and effort of the work force. Other major sources of productivity improvement in our economy include injections of new capital and technology, the introduction of more efficient management techniques, and better resource allocation through the removal of obstacles to competition.

Productivity gains arising from improvements in the management and organization of productive enterprise and from greater effort on the part of the work force can only be helpful in present circumstances. Most of the other possible routes to productivity improvement have the disadvantage, so far as our immediate situation is concerned, that they would involve heavy initial outlays and thus risk adding to upward price pressures from the demand side.

Leaving these possibilities aside, the long-term annual average increase in output per person employed, which has been about 2½ per cent in Canada for many years, permits increases of this magnitude in the real income of those directly employed in the productive process. This is apart from any change in the respective shares of employees and of owners of capital in the total income stream generated by productive activity. At the present time wage and salary income seems to account for a larger share of total income than it has for many years, but this is associated with a profit squeeze for many firms which would scarcely be acceptable to business over any extended period. It is worth noting that an average annual increase of 2½ per cent in real income per person employed is roughly the same thing as an average increase of three per cent per man-hour, because of the gradual reduction in the length of the work week.

I have indicated that, by and large, prices tend to rise in the economy by the extent to which the average size of pay increases per person employed exceeds the average increase in productivity, and

that if we are to overcome the present inflation, there will have to be an early and significant scaling-down of the size of pay increases even if we get as large an improvement in productivity as is feasible in the short run.

If individual wage and salary earners were paid in accordance with their individual contributions to productivity improvement, there would be some who could demonstrate above-average productivity improvement while others would be able to demonstrate little or none. It is obvious that, if a principle of this kind were carried to its extremes, many employees in occupations with limited scope for productivity improvement would have to make do indefinitely with little or no increase in their incomes, while their more fortunate colleagues forged steadily ahead of them in pay levels. It takes little reflection to perceive that tying relative pay increases too closely to the rates of productivity increase achieved in particular industries would run counter to the longer-run economic forces which tend to equalize rates of pay for workers of comparable skill regardless of the industry in which they happen to be employed.

This discussion may seem to touch on rather obscure matters, but I can assure you that there are basic questions involved which, though very difficult, must be faced in practice by those advocating a conscious wage and salary policy for the immediate future. Such a policy must embrace two elements. We must decide, first of all, what the size of the average pay increase ought to be at the present time and at what rate it is reasonable to expect it to decline over the months ahead. The aim, of course, is to scale down the size of pay increases in line with the scaling-down of price increases, so that the growth in the real income of the average employee remains unaffected as inflation is brought under control. We must then decide on what grounds and to what extent increases above or below this average level are to be regarded as appropriate in particular cases.

But a more detailed examination of these matters must wait for another day and another speech.

Je voudrais terminer en vous rappelant, encore une fois, que la tâche qui consiste à modérer l'inflation actuelle pour revenir assez rapidement à une stabilité raisonnable des prix pose un grave dilemne quant à ligne de conduite à adopter. Les remèdes classiques qui s'appliquent déjà depuis quelque temps au Canada et aux Etats-Unis compriment la croissance des dépenses publiques et privées. Leur impact initial ne frappe pas tant le taux d'accroissement des coûts et des prix que le volume des ventes, les taux d'exploitation, l'emploi et les profits. C'est seulement à la longue, grâce aux effets de la compression des bénéfices sur l'attitude des employeurs et à l'effet du ralentissement du marché de la main-d'oeuvre sur les attitudes des travailleurs que les forces du marché finissent par imposer une réduction de l'ampleur des augmentations de prix et de coûts de la main-d'oeuvre.

The fact that it takes so long in the normal course of events to bring about a substantial reduction in the size of price and cost increases - and of wage and salary increases in particular - is not too surprising. In many cases rates of pay are established

well into the future and are based not so much on an up-to-date assessment of the economic weather immediately ahead, as on figures from the recent past showing what similar groups of employees have obtained by way of pay increases. In many areas of the economy decisions about the size of pay increases are taken at several removes from the pressures of changing economic conditions, and often with little or no recognition of the fact that the size of pay increases in the recent past has already become quite inconsistent with the economic outlook over the immediate future.

The problem is, therefore, that without a quite sharp and prolonged change in labor market conditions, the message of altered circumstances may largely fail to get through to the employer and employee groups on whose understanding of the situation hangs the outcome of decisions regarding the size of pay increases.

The Commission has taken the view that anything that can be done to bring a direct downward influence to bear on the size of increases in prices

and incomes over the next year or two will help to reduce the need to rely on the painful compulsion of market forces to achieve these results. In this way it should be possible to soften and shorten the hardships of the transition from a high rate of inflation to reasonable price stability.

The results of the Commission's efforts to date along these lines emerged several weeks ago from the National Conference on Price Stability and the subsequent Federal-Provincial Conference of First Ministers. Business firms generally have been called upon to reduce the number and size of price increases they would normally make in 1970, by ensuring that any price increases are clearly less than the amount needed to cover increases in costs. The Commission is conducting a growing number of price reviews to check on observance of this principle in business pricing policies. In the course of these reviews, the Commission is necessarily making its judgments on the basis of exacting standards, and is relying on the powers of persuasion available to governments to ensure compliance.

What has been achieved so far is, however, only a beginning, and the real test of the Commission's approach will be whether some effective means can be found of influencing the size of wage and salary increases in the months ahead.

Si la Commission fait pression sur les hommes d'affaires pour les amener à réduire leurs hausses de prix, ce n'est pas qu'elle croit l'entreprise plus particulièrement responsable de l'inflation. Et même s'il ressort de nos études de prix que les fortes hausses des coûts de main-d'oeuvre continuent à contribuer largement aux hausses de prix, cela ne veut pas dire que le syndicalisme en particulier ou même les salariés dans l'ensemble soient plus particulièrement à blâmer.

Mais d'autre part, il est évident que nous avons peu de chance de trouver une solution positive aux problèmes actuels de l'inflation qui existe au Canada à moins que tous les groupes de la collectivité sans exception n'acceptent une part de responsabilité et ne participent à l'effort commun.

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Release: 2:00 p.m.
May 7, 1970

Trebla Building
473 Albert Street
OTTAWA, Canada

Tel.: 995-7425

NEWS RELEASE

Evidence of a slower rate of increase in consumer prices over recent months was cited today by Prices and Incomes Commission Vice-Chairman Paul Gérin-Lajoie.

Mr. Gérin-Lajoie, speaking before the Montreal Richelieu Club at the Queen Elizabeth Hotel, said that since last summer the consumer price index in Canada has risen at an average annual rate of about four per cent. This compares with a rate of over five per cent earlier last year. In the United States, the consumer price index has risen at an average annual rate of more than six per cent since last summer.

The recent slowing of the rate of price increase in Canada was associated with a squeeze on profits. The size of wage and salary increases, however, had continued to rise both in Canada and in the United States. The average increase in base rates of pay under new contract settlements in Canada during the first three months of 1970 was 9.1 per cent compared

. . . 2

with 7.2 per cent a year earlier. Unless this trend was reversed, progress toward more stable prices could not be maintained.

"This is why", he added "I have referred to clearly disproportionate wage and salary increases which have hindered the efforts of other groups in society in the fight against inflation".

The Commission Vice-Chairman stressed the importance of the Commission's modest but growing public information effort as a means of influencing community attitudes toward the size of wage and salary increases. He hoped that increased public awareness would contribute to better understanding and acceptance of the need for restraint if inflation was to be overcome with a minimum loss of production and jobs.

ices and incomes commission

ommission des prix et des revenus

For Release: 12:30 p.m.
Monday, May 25, 1970

West Memorial Building,
344 Wellington Street,
Ottawa, Canada.

Tel.: 995-6357

NEWS RELEASE

Speaking to the National Credit Conference in Vancouver, John Young, Chairman of the Prices and Incomes Commission, stated that at no time had the Commission singled out any particular private group as bearing some special degree of responsibility for Canada's inflation problems.

The point the Commission had been making was that as a matter of simple arithmetic, it would not be possible to achieve and maintain a substantial reduction in the size of price increases in coming months unless there was also a reduction in the size of pay increases. This was because the prices of goods and services had to be high enough to cover the labor and other costs incurred in their production as well as the profit of the firm which sold them. A severe squeeze on profits and on production costs other than wages and salaries could provide only limited price relief, since payroll costs absorb much the largest share of income from sales of goods and services in the economy as a whole.

Mr. Young stressed that it was no part of the Commission's program to call upon wage and salary earners to accept smaller increases in their real income than they have been getting or than other groups in the economy are

being called upon to accept. The only source of real improvement in the average level of economic well-being of Canadians was higher average production per person employed, and the size of such productivity gains could be just as large with low rates of increase in prices and money incomes as with high ones. The Commission's message was that by accepting somewhat smaller increases in their money incomes, all Canadians including wage and salary earners could help make it possible to slow down the rise in living costs. On balance, this method of combatting inflation would leave the Canadian people just as well off as before. They would not earn quite so many dollars, but each dollar they earned would buy more. Indeed, to the extent that inflation could be checked through co-operation in restraining price and income increases directly - a method of curbing inflation which does not involve a temporary loss of jobs and output - all groups including wage and salary earners would find themselves significantly better off.

ADA

'rices and incomes commission

:ommission des prix et des revenus

FOR RELEASE: 6:15 p.m. EDT,
Thursday, June 4, 1970.

Address delivered by
John H. Young,
Prices and Incomes Commission,
to the
Annual Meeting of the
Canadian Economics Association
Thursday, June 4, 1970.

Winnipeg, Manitoba.

The Prices and Incomes Commission - A Progress Report

Most of those present at this session have probably taken some interest in the activities of the Prices and Incomes Commission but some may have lost track from time to time of what we have been doing. For those in this position it may be worthwhile to begin with a brief summary of events since the meeting of this Association a year ago.

The members of the Commission were appointed on June 19, 1969, "to inquire into and report upon the causes, processes and consequences of inflation and to inform those making current price and income decisions, the general public and the Government on how price stability may best be achieved." The appointments terminated Dec. 31, 1971, and at that time the Commission was expected to produce a major report. The Commission was also empowered to prepare and publish under its own authority reports on "current developments in costs, prices productivity and incomes in particular sectors and industries within the economy and for the Canadian economy as a whole."

Prior to the formal appointment of the Commission there had already been a fair amount of informal discussion of the longer-term research role of the Commission. There were clearly a number of puzzling questions about the inflationary process in general and Canadian inflation in particular which called for further analysis.

One group of issues concerned the international, inter-regional and inter-sectoral complexities of Canadian inflation. To what extent is the behavior of prices and costs in Canada affected by external as opposed to purely domestic influences? Through what channels, direct as well as indirect, are these external influences transmitted? How and to what extent is the price and cost experience of particular sectors or regions of the Canadian economy transmitted to other sectors or regions? Why do some regions of Canada, facing relatively weak demand pressures in their labor and product markets, typically experience much higher unemployment rates than those prevailing elsewhere in the country, rather than much lower rates of cost and price increase?

A second group of questions had to do with the techniques and strategy for effective control of aggregate demand. The controversy between the monetarists and the rest had warmed up in recent years and a fresh examination of the evidence bearing on the main issues in contention would clearly be required. This would involve further empirical study of the relative impact on demand of monetary and fiscal actions, together with an attempt to sort out the real as opposed to the apparent differences between those who look primarily at changes in monetary quantities and those who look primarily at changes in credit conditions.

Finally, there were a number of issues concerning how and to what extent non-competitive behavior in product and factor markets affects the inflationary process and complicates its control through demand management techniques alone. What problems do existing institutional arrangements in non-commercial areas of the economy, such as health, education and other public services, pose for the control of costs and prices in these areas? Within what range of demand conditions is the short-run behavior of prices and costs dominated by the exercise of discretionary market power on the part of oligopolies and unions? In particular,

is there a strong economic case for some form of incomes policy as a supplement to demand management techniques in the control of inflation?

The general direction in which the research program of the Commission should go was not, therefore, a problem for which we had no answer. We were, of course, faced with the difficulty of recruiting staff from the universities at a time when most had already made teaching and research commitments through the spring of 1970. But, given even a year or two of intensive study by a sufficiently talented and imaginative group of economists, there was reason to hope that we could come up with some useful suggestions on how future bouts of inflation might be overcome or, preferably, headed off at the outset.

The more puzzling question which faced us when we sat down together on July 2nd was what we could do to help bring the existing inflationary situation under control, since it was clear that the Commission was expected to take an active interest in current as well as future problems of this kind.

could be expected to soften; but, given the pervasiveness and momentum of the inflation and the strength of the inflationary psychology, it might well take a considerable time for price and income increases to slow down. In the meantime, it would be very difficult to avoid, perhaps for a protracted period, adverse side-effects which no one wanted - an interruption in the growth of production in the economy and a temporary rise in unemployment.

It seemed to the Commission that a smoother, shorter and less painful transition back to price stability could be achieved if some way could be found to cut directly into the spiralling process of price and income increases with the object of slowing it down more rapidly than seemed likely otherwise. If this could be done, it might be possible to moderate government policies of budgetary and credit restraint earlier and soften some of their more painful side-effects.

The Commission realized that it was quite unrealistic to expect any individual or group, acting alone, to take the initiative in offering co-operation. It was conceivable, however, that a great many people and organizations would be willing to help, for a temporary period, as part of a nationwide effort and in ways which had been worked out in consultation with representatives of all major elements in the community. Such a plan would mean working out a set of specific undertakings to be asked of business, labor, other private groups and governments, designed to achieve a substantial across-the-board scaling down of price and income increases during the coming year. Methods and procedures would also have to be devised for ensuring that the spirit of these undertakings was being observed in practice.

During the summer and early autumn the Commission held close to 100 meetings of various kinds with representative groups of businessmen, labor leaders, government officials and others in an attempt to arrive at a comprehensive set of undertakings for which widespread support throughout the community could reasonably be expected.

This phase of the Commission's efforts came to an end on Oct. 17th when the leaders of the two major trade union federations in Canada rejected as impractical any approach to the problem which incorporated an explicit formula limiting wage and salary increases. An alternative approach suggested by the labor leaders was to concentrate on confining price increases to those which could be justified by a corresponding increase in the firm's total production costs including wage and salary increases.

In view of the position taken by the labor federations the Commission decided, after consultation with governments and business leaders, to try a somewhat different approach. Instead of trying to negotiate an across-the-board set of commitments with representatives of all segments of the community at once, it would see how far it could get by negotiating in a more piecemeal way.

We began this phase of our efforts by exploring with the executives of the larger national business associations the possibility of persuading the business community to take

the first step. We asked them whether they thought business firms generally would be willing to make a meaningful effort to limit price increases during 1970, even though in the beginning at least firm undertakings to exercise a corresponding degree of restraint had not been obtained from governments, wage and salary earners or other groups in the community.

The business leaders we talked to thought it possible that business firms would be willing to take an initiative of this kind and following a lengthy process of discussion and negotiation specific proposals were submitted to the Commission by groups such as the Canadian Manufacturers' Association, the Canadian Chamber of Commerce and others.

In mid-January the Commission decided that the response had been sufficiently positive to justify the calling of a National Conference on Price Stability in Ottawa on Feb. 9th and 10th. This conference was attended by more than 250 business leaders, executives of national business and farm associations and representatives of professional groups.

The conference reached broad agreement on the basic principle that business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970 by ensuring that price increases were clearly less than the amount needed to cover increases in costs at a normal volume of output or sales. More specifically, the conference reached agreement on how this general principle should be interpreted as a guide to the pricing policies followed in particular areas of business such as manufacturing, wholesale and retail trade, transportation and utilities, banking and finance, agriculture, basic export industries and so on. The Commission undertook to check on the degree of compliance with these pricing criteria on the part of business firms by conducting price reviews in a variety of industries. The basis on which such price reviews would be conducted was discussed with those attending the conference and the Commission was assured of the co-operation of business firms in supplying the price review teams with the information required for such studies.

At a Federal-Provincial Conference of First Ministers on Feb. 16th and 17th the Commission reported on the results of the meeting with business, farm and professional representatives and put before the Heads of Government a number of specific suggestions for action on the part of the federal and provincial governments in support of the price restraint program. In the Concluding Statement issued at the close of the Conference the Heads of Government endorsed the Commission's plan to call upon business firms generally to follow the basic pricing principle adopted the previous week.

The governments also undertook to observe the same principle in the prices or fees charged for goods and services offered for sale by government departments and public enterprises. While expressing the hope that government sanctions would not be required, it was agreed by most of the governments represented that if necessary they would use such means as lay within their control to deal with cases of serious non-compliance with the pricing criteria as reported by the Commission. There was also agreement on the part of governments to consider the establishment or strengthening of rental review procedures for existing self-contained residential accommodation

in major urban centres and to urge professional associations to postpone or limit increases in existing fee schedules during 1970. Finally, the First Ministers agreed that governments should exercise as much restraint in their spending, taxing and borrowing as was practicable without damaging essential services or retarding economic development.

The Commission was well aware, of course, that what had emerged from these conferences was only a beginning and that the most difficult stage of the exercise still lay ahead, namely to find some way of exerting an effective moderating influence on the size of wage and salary increases. The Commission now had a base, however, from which to exert a limited but none the less real restraining influence over price increases. A number of price review teams have been formed, staffed partly with officials seconded from government and partly with experienced specialists seconded from business firms. Reviews of price and cost increases have been completed in the case of steel rolling mill products, tin plate and glass containers. Similar studies are under way in the case of railway freight rates, copper and copper products, tin containers, coffee, rubber tires, fine papers and duplicating services and supplies. A wide variety of other price increases

which have been brought to the Commission's attention have been investigated on an informal basis and in a number of cases firms have agreed to defer or rescind such increases. With the co-operation of a growing number of business firms an organized system of price surveillance is being developed.

In the meantime the Commission resumed active discussions with leaders of trade union organizations in a renewed effort to find a possible basis for obtaining their participation in the restraint program. On March 23rd, however, the two major labor federations again rejected the principle of wage and salary restraint in annual briefs presented to the government.

At the May Conference of the Canadian Labour Congress this position was re-stated in equally vigorous terms.

The outcome of the present phase of the Commission's activities will have to await a later progress report but before closing it would perhaps be useful to refer to a few of the issues concerning inflation and its control which have come up for discussion in the last year or so.

What, if anything, have we learned from the latest bout of inflation in North America?

So far as the main issues are concerned between economists who see inflation as a serious problem and those who do not, the answer would seem to be that recent experience has not served to bring the two camps significantly closer together. In this particular area of discussion the situation continues to be one in which the deaf continue to repeat stale arguments to the deaf.

The resolution of some of the less central issues of inflation may have been advanced a bit by recent events. The current inflationary episode has been widely recognized as having somewhat different characteristics than previous ones. In particular, the present inflation has been associated with an unusually long period of uninterrupted economic expansion, and has been both more prolonged and more rapid than previous North American experience of inflation. One widely noted consequence of this has been the evidence of adaptive behavior in capital markets and labor markets to progressively changing expectations about the future value of money. Almost any form of contract for the future payment of fixed amounts of money, whether a long-term bond issue or a three year wage settlement, now is written

in figures which can scarcely be explained on any other basis and which are well outside the range seen in North America for several decades. This has provided new empirical evidence bearing on the question of the response to a sustained inflation.

In this connection I might draw your attention to the fact that policy actions taken in the latter part of 1966 and early 1967 to check the pace of inflation appeared to be achieving some limited success over subsequent months, but that renewed inflationary pressures developed a few quarters after these efforts had been relaxed. This particular input into the learning process of the economy has been reflected in the professed determination of our economic managers, both here and in the United States not to repeat what has since come to be regarded as a premature and excessive relaxation of policy restraints. One can only speculate on what would be the effects of a second episode of this kind in present circumstances despite all the brave words that have been uttered about the need to see the process through to its conclusion. A clear demonstration that for the first time in the history of this part of the world inflation had finally got beyond anyone's ability to control would, it seems to me, put us into a new environment for economic policy.

On the question of how best to attempt to extricate the economy from an inflation such as we have seen in recent years, it seems to me that the differences among economists are not very deep or fundamental. The main issue is between those who feel that reliance should be placed solely on measures such as monetary and fiscal action to check the growth of demand, and those who feel that such measures might usefully be supplemented by some form of direct pressure to help scale down the size of price and income increases.

Both sides, it seems to me, would grant that any form of direct intervention of this kind would tend to result in a certain amount of distortion of the resource-allocating function of the price mechanism in markets for goods and labor. Both sides would probably also agree, however, that such effects were unlikely to be of great moment in the case of a temporary short-run program.

The area of disagreement is probably wider on the question of whether the probable effectiveness of such attempts at direct intervention would be worth the trouble. On this question I would merely point out that the issue is not whether price and incomes policies in general

do or do not have significant effects. How strong the effects are must surely depend on the particular form which the policy takes, the particular methods employed for influencing price and income decisions and the particular circumstances in which these measures are deployed. Some methods of intervention are more ambitious, more ingenious and better calculated to suit the requirements of the situation than others. The more energetic and inventive the attempt to devise effective means of intervention the greater will be the chances of achieving meaningful results.

CANADA

Prices and incomes commission

Commission des prix et des revenus

June 4, 1970

For Immediate Release

NEWS RELEASE

The Prices and Incomes Commission will undertake an immediate investigation into price increases in milk and other dairy products in British Columbia, the Commission announced today.

The investigation will encompass price increases at both the wholesale and retail level to ascertain whether they comply with the pricing guidelines agreed to at the National Conference on Price Stability and at the Federal-Provincial Conference of Heads of Government last February.

Subsequent to those conferences, businesses were called upon to"ensure that price increases were clearly less than the amount needed to cover the increases in costs at a normal volume of output and sales."

In recent weeks several British Columbia dairies increased their prices to food retailers and for home deliveries. In the last few days several retailers increased their prices from one to two cents a quart of milk.

CANADA

Prices and incomes commission

Commission des prix et des revenus

June 5, 1970.

NEWS RELEASE

WINNIPEG - The Prices and Incomes Commission has asked for the joint support of the federal and provincial governments in applying criteria to limit increases in wage and salary costs.

The objective of the program is to provide greater assurance of continued progress in reducing the rate of cost and price increase. This will make it possible for the federal government to proceed with monetary and fiscal action to permit the economy to assume a more normal growth path with greater employment opportunities under conditions of reasonable price stability. The proposal is intended to reinforce the existing program of direct restraint on business pricing policies.

The wage and salary criteria are designed to enable employees as a group to obtain as large an increase in their real incomes as the economy is capable of delivering through increased average output per employee while making possible continued progress towards reasonable price stability.

An initial upper limit of six per cent will apply to first-year increases in wages and salaries including fringe benefits granted in present circumstances. This initial figure allows for the long-term average improvement in national productivity of $2\frac{1}{2}$ - 3 per cent per year, together with a possible rate of increase in the Consumer Price Index over the next 12 months of 3 - $3\frac{1}{2}$ per cent. The upper limit of six per cent is also in line with the average figure for second and third-year increases becoming effective in 1970 under major collective agreements negotiated in 1968 and 1969. There will, of course, be many situations in which employees will not be able to obtain increases as large as six per cent.

These initial limits will be subject to reconsideration from time to time in the light of progress and prospects in limiting the rate of increase in prices. It is envisaged that a figure lower than six per cent will become appropriate for wage and salary increases granted a few months from now. In certain cases wage or salary increases in excess of the announced limits will be justified. Increases in excess of the upper limits obtained by employees whose current wage does not exceed $2.00 per hour or $350 monthly salary will be exempt from the application of the announced limits. Other grounds for justifiable increases in excess of these limits include an inability to maintain or attract an adequate work force and the removal from collective agreements of specific restrictions

on work practices which could be shown to lead directly to unusual gains in productivity.

No general exception will be permitted on the ground that the group of employees concerned has fallen seriously behind the rates of pay achieved by comparable groups. In practice, however, a few extreme cases of this kind will undoubtedly be encountered, particularly in the initial phase of the program, and these will be given consideration on an individual basis in the context of wage and salary reviews.

It is intended that the six-per-cent limit should apply to increases in rates of pay for particular job classifications and that it should not prevent increases in employee compensation reflecting clear-cut cases of promotion within the job structure including the completion of probationary periods or stages of apprenticeship.

Improvements in fringe benefits covering contingencies such as sickness or accident will be exempt from the announced limits.

Changes in the length of the standard work week or in paid time not worked which have the effect of increasing employee remuneration will be taken into account in the application of the specified limits.

Employers will be encouraged to compensate employees whose pay increases meet the criteria in the event that the Consumer Price Index rises by more than $3\frac{1}{2}$ per cent over the first year of such increases. It is suggested that such provision might take the form of re-opening clauses in collective agreements or indexing arrangements.

Employers and employees generally both in the public and private sector will be called upon to observe the criteria. Procedures will be established for surveillance of wage and salary increases and for the review of particular cases at the discretion of the Prices and Incomes Commission. The findings of such reviews will be made public and it will be for the government under whose jurisidction the relevant employee groups fall to take appropriate action to deal with serious cases of non-compliance.

Provincial governments are being asked to re-examine the steps that they have already taken to promote restraint in the area of rents and professional fees since further action along those lines by some provinces will be required to obtain support for the wage and salary restraint program.

The Chairman of the Commission, John Young, emphasized his conviction that with the co-operation of all Canadians in support of the price and income restraint program as a whole it would be possible to move simultaneously toward more normal levels of economic activity and employment and a more stable price level.

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release
June 15, 1970.

West Memorial Building
344 Wellington Street,
Ottawa, Ontario,
Telephone: 995-6357

NEWS RELEASE

The Prices and Incomes Commission is examining recent developments in chartered bank earnings and expenses.

The study is part of the normal surveillance procedures followed by the Commission in administering its price restraint program. It will be recalled that on February 5, 1970, the member banks of the Canadian Bankers' Association undertook to support the Commission's price restraint program for 1970 in respect of their service charges and lending rates.

Data on bank operations for the three-month period ending April 30, 1970, have just become available.

The findings of the study will be made public at an early date.

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release
June 15th, 1970

NEWS RELEASE

The Prices and Incomes Commission will undertake a preliminary inquiry into wage settlements ratified yesterday by Toronto construction workers.

Announcing the inquiry, John H. Young, Chairman of the Commission, said it is first necessary to gather all the facts concerning the negotiations and the settlements. He said that members of the Commission's staff have been assigned to undertake the study and that work will begin immediately.

Mr. Young said it would be inappropriate to comment on the settlements until the Commission has had time to examine the situation.

-30-

CANADA

Prices and incomes commission

Commission des prix et des revenus

June 16, 1970.

West Memorial Building,
344 Wellington Street,
Ottawa.
Telephone: 995-6357

Notes of Remarks by John H. Young to CLC

Perhaps we should consider at the outset how we might use the time at our disposal this morning most productively.

It seems to me that it would not be very useful for us to spend much time going back over the list of differences which have arisen in the past between the Canadian Labor Congress and the Prices and Incomes Commission. For the most part these differences now are water over the dam, and the question we have to consider as a practical matter is where we go from here.

What alternative courses of action remain open?

One possibility would be for the Congress to maintain its position of blanket opposition to the whole idea of including wages and salaries in any across-the-board program of price and income restraint. In line with such a position the Congress would presumably advise its member locals to pay no attention to the wage and salary criteria for which the Commission has asked the support of government and the public. Such a course of

action would seem to have as its main outcome a further deepening of the gulf which has been opening up between organized labor on the one hand and governments on the other. It would also seem to rule out any possibility of the Congress exerting a constructive influence on national economic or social policy through the exercise of its potential bargaining power with governments.

The second possibility - if it still is a possibility - would be for the Congress to make a serious effort to obtain from governments some specific commitments which would constitute a reasonable and feasible quid pro quo for participation by organized labor in the restraint program. We are well aware of the view held by the Congress that the restraint program to date is seriously inadequate in terms of its effective coverage of incomes other than the wages of union members, such as executive salaries, rents and professional fees. We would remind you that so far the main impact of our program has been on prices, profits and professional incomes, and not at all on wages. But we agree that unless effective limits are placed on the income increases of all the strongly placed groups in our society - not just organized labor - the weak will continue to be victimized either by rising prices or by unemployment or both.

The Commission's ability to obtain more effective action from governments to limit increases in non-wage income has been handicapped by the argument that stronger measures in this direction

...3

would be too one-sided in the absence of any labor participation in the restraint program. It would be our judgment that the Congress has important potential leverage which could give it an effective influence on government policy in these other areas of income. For this leverage to be effective, however, the Congress would have to be willing to stipulate rather precisely what it would be prepared to offer in return.

The Commission has already indicated that relatively lower-paid workers should not be subject to the six-per-cent limit on wage increases. If you think we should go beyond this, and draw the limits tighter on the relatively well-paid - whether executives, professionals, union members, property owners, money lenders or stockholders - why don't you say so?

It would be a shame if the Congress threw away the opportunity it still has to influence national economic policy in the direction of more expansion and less unemployment next winter. The authorities clearly want to press ahead with further relaxation of the present degree of fiscal and monetary restraint so as to create more job opportunities. They also know, however, that without more effective containment of cost pressures in the economy - and this has to include the pressure of wage and salary increases far in excess of what the economy can actually deliver -

...4

substantial expansionary steps on their part are bound to set prices rising faster than ever. We submit that this is an obvious risk that all of us should be able to see, and that no group in the country has a greater direct interest than the Canadian Labor Congress in helping make it possible to expand job opportunities in Canada without giving inflation a new lease on life.

- - -

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release

June 17, 1970.

West Memorial Building,
344 Wellington Street,
Ottawa.
Telephone: 995-6357

NEWS RELEASE

The Prices and Incomes Commission now is operating a system of regular checks which effectively monitors the largest stores in retail trade in Canada.

The system was instituted by Commission personnel in consultation with the Retail Council of Canada. Officials loaned to the Commission by Molson Industries Ltd., Union Carbide of Canada Ltd., and the Dominion Bureau of Statistics are responsible for operating the monitoring system and ensuring that the major companies stay within the criteria and guidelines formulated and agreed to at the National Conference on Price Stability in Ottawa on Feb. 9-10, 1970.

Nationally known supermarket and wholesale food chains such as A and P Stores, Canada Safeway, Dominion Stores, Loblaw Groceterias, M. Loeb Ltd., Oshawa Wholesale Ltd., Steinberg's and Supervalu Food Stores are reporting to the Commission on a monthly basis.

In addition to the supermarkets, department, variety and discount stores are sending price data to the Commission

each month. Information now is being received in a systematic way from Allied Towers, Canadian Tire, the T. Eaton Co., Hudson's Bay Co., Kresges and K. Marts, Simpsons-Sears, Woodwards, Woolworths and Woolco, Zellers, Robert Simpson Co. Ltd. and Miracle Mart.

These stores represent a large cross-section of wholesale and retail sales in Canada and have outlets in practically every region of the nation. The Commission is, of course, interested in prices prevailing in other stores but limitations on time and staff do not make it possible to obtain detailed reports from each of the many thousands of retail outlets in Canada.

The Commission has organized this detailed reporting system because it realizes that the average consumer in Canada spends a large part of his or her income on food, household and personal items. Consumers are rightly concerned about prices in these areas and have every reason to expect the Commission to have an effective surveillance system for these products.

Commission representatives met members of the Retail Council of Canada to work out the most effective way of obtaining up-to-date information on prices and markups. They have cris-crossed Canada and held detailed discussions with many of Canada's leading businessmen in the wholesale and retail trade fields. Following these discussions, the

Commission believes the retail trade generally realizes the importance of effectively restraining prices and has willingly given its support to this program.

As a result of these meetings, a monthly reporting system has been established whereby the retail stores mentioned previously will supply the Commission with detailed information on price margins. This co-operation goes beyond the commitments agreed to at the National Conference on Price Stability held in Ottawa in February and subsequently endorsed by the First Ministers of the Provinces.

The closing statement of that conference said, in relation to the retail and wholesale trade:

"The general merchandise sector of the retail and wholesale trades in determining pricing policies during 1970 would undertake not to increase initial markups on its various merchandise categories unless realized profit per dollar of sales would fall below that of the base period. In such cases increases in markups would be sufficient only to restore returns to the level of the base period.

"The grocery sector of the retail trade in determining pricing policies during 1970 would undertake not to increase initial markups unless realized profit per dollar of sales, calculated on the volume of sales carried on over their entire operation would fall below that of the base period. In such cases increases in markups would be sufficient only to restore returns to the level of the base period."

The Commission has asked supermarket, variety, discount and department stores to supply information from the beginning of 1969 and for each month in 1970. This information now is being analysed by the Commission each month and, if initial markups are found to exceed the markup in 1969, the company involved is asked to reduce its markup or gross profit after consideration of justifiable increases in expenses since 1969. Examples of additional expenses common to the industry are those in labor and salaries, costs of borrowing money for expansion, freight and distribution costs.

One obvious reason for a price increase in a product is an increase in the price to the store from the manufacturer or the processor.

Upon request, supermarket, department, discount and variety stores will supply the Commission with more detailed price information on any specific product it wishes to investigate. This has been achieved by a Commission-established system of contacts throughout the retail trade in Canada which allows immediate identification of the reason for an individual product price increase.

The Commission can then trace back the increase from the manufacturer or processor to ensure that it is within the guidelines established for manufacturers. In addition, it can

make an immediate check with supermarkets, department, discount and variety stores across Canada to ensure that they are not increasing their markup or gross profit beyond the agreed guidelines.

The retail monitoring system has already resulted in the rollback of some price increases but, and more importantly, it has resulted in manufacturers, processors, supermarket, department, discount and variety stores being much more aware that any price increase which is to be passed along to consumers must be clearly within the guidelines pertaining to their particular segment of industry.

While obviously the Prices and Incomes Commission cannot take the credit for the reduction in the Consumer Price Index for May, its activities are making an important contribution to restraining price and profit margins. The Commission is aware that many Canadian firms are absorbing at least a part of cost increases in order to meet the Commission's criteria and to restrain price increases. The Commission is aware of such instances in the food products industries, as well as in a variety of other fields such as milk, luggage, dyestuffs, stoves, washing machines, glass containers, certain chemicals and steel products, copper, aluminum, plastics and cold storage. Even the price of marine charts issued by the Federal Government has been rolled back to conform with the restraint program--to $1.00 from $2.00.

The Commission has received many communications concerning prices of specific products. It has examined at some length each case where it appeared there had been a price increase in a product which is normally regarded as being an essential item.

At the present time in-depth price reviews are under way for a wide variety of products, including bread, milk, processed foods, edible oils, rubber tires, cement, tin containers, air fares, freight rates, copper, construction costs, coffee, razor blades, fine papers, duplicating services and aviation fuels. Detailed reviews have been completed and made public for steel products, including tin plate and glass containers. Approximately 40 other reviews of varying complexity have also been completed since March 1 of this year.

The true impact of this kind of program cannot be measured by statistics, reviews or studies or price increases. The real success of the program should be evaluated in terms of the price increases which have not taken place or which have been smaller than they would have been without the criteria. Its success is that Canadian industry appears to be accepting and applying the price restraint criteria to their pricing policies for 1970 and this should in turn be reflected in a slowing down in the rate of price increases.

CANADA

Prices and incomes commission

Commission des prix et des revenus

West Memorial Building,
344 Wellington Street,
Ottawa, Canada.
Tel.: 995-6357

For Immediate Release

June 26th, 1970.

NEWS RELEASE

The Prices and Incomes Commission has completed its review of two collective agreements announced in Toronto earlier this month. These involved Local 721 of the International Association of Bridge, Structural and Ornamental Ironworkers, and Local 230 of the International Brotherhood of Teamsters.

In the first of the two settlements involved, negotiations were begun in March and a firm offer including an 18 per cent wage increase for a one-year agreement was made in May by the companies involved.

In the second settlement, a memorandum was signed on June 4 providing for wage rate increases amounting to 20.6 per cent for the first year and 9.8 per cent for the second year of a two-year agreement, plus improvements in certain fringe benefits.

In each case it has been established that the negotiations were virtually completed before June 5. This is the date on which the Prices and Incomes Commission announced proposed criteria to be taken into account in reaching decisions concerning wage and salary increases in

both organized and unorganized sectors of the economy over the coming months. The Commission recognizes it would not be realistic to have firm positions taken by the parties withdrawn and, in effect, to expect negotiations to start all over again. For this reason the Commission will not be extending its review in these two cases.

It should be added, however, that the increases in wage rates in the construction industry have been excessive, particularly in the past year. Along with high prices for capital, land and materials, they have been clearly beyond the capacity of the industry to absorb. As a consequence, construction costs have continued to increase and this, in turn, has meant higher rents and higher prices for housing, other buildings and construction in general.

Wage and salary increases of this magnitude make it more difficult for governments to take effective action to encourage economic expansion and reduce unemployment without a risk of even more serious inflation.

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Release at 3:30 p.m. E.D.T.

West Memorial Building,
344 Wellington Street,
Ottawa, Canada.

Tel.: 995-6357

Address delivered by
John H. Young,
Chairman,
Prices and Incomes Commission,
to the
Macdonald Club of Prince George,
Thursday, July 2, 1970.

Prince George, British Columbia.

The Prices and Incomes Commission now has been in existence for almost 12 months. When we arrived on the scene in mid-1969 prices in Canada had been rising at a substantial rate for more than four years - the most prolonged outbreak of serious inflation in our peacetime history. The Commission's job was to look into the whole problem and to advise the government and the public on how inflation might best be controlled.

The government had already made it clear that it was not prepared to let the inflation run on unchecked, and it had taken strong monetary and fiscal action to bring the process under control by restricting the growth of public and private spending in Canada. Similar measures had been taken in the United States, where the problem had developed somewhat later but had since become even more acute than in Canada.

There was no reason to doubt that these measures, if pressed hard enough and persisted in long enough, would eventually succeed in slowing down the rise in prices. Indeed, it was because public and private spending in total had been allowed to expand too rapidly in the mid-'60s that the rate of price increase had begun speeding up in the first place. By imposing severe restrictions on the growth of spending in the economy it was logical to expect that the process would begin working in reverse.

By itself, however, such a policy approach was unlikely

to restore reasonable price stability quickly or without temporary adverse side effects on production and employment which no one wanted. If business firms responded to the easing of market demand for their products by foregoing price increases, their profits would be squeezed unless they could at the same time slow down the rising trend of their costs of production. But much the largest single element in production costs for the economy as a whole is labor costs, and it was clear that wage and salary earners would strongly resist any reduction in the size of their pay increases.

Eight years of unbroken economic expansion and four years of strongly rising prices had left their mark on the attitudes and behavior both of employers and employees. But if employers were determined to try to resist any reduction in the size of their profit margins, and employees any reduction in the size of their pay increases, the initial adjustment to an easing of spending pressures in the economy would have to take the form of lower sales volume, lower production and lower employment rather than smaller price and cost increases. Only at a later stage could intensified competition and the emergence of excess productive capacity be expected to provide an effective deterrent to large price increases, and declining profits and rising unemployment an effective deterrent to large wage and salary increases.

At some point, of course, the government's policy dilemma

would become acute. If it kept the pressure on until it was clear that the adjustment of costs and profits to a more stable price level was well advanced, the loss of jobs and output might by then have become very serious. If on the other hand it acted to support the level of economic activity and expand employment opportunities before the adjustment of costs and prices had gone far enough, it would run the risk of giving inflation a renewed lease on life.

I have gone over this ground in some detail because it is essential to an understanding of what the Prices and Incomes Commission has been trying to do. Ours is a market economy which for several years has been experiencing a high rate of inflation which can't be allowed to continue. We want to get back on to a path of strong economic growth and expanding job opportunities under conditions of reasonable price stability. But the road back promises to be a very rocky one unless we can find a shorter and smoother route. That is the challenge, to find a new and better way back to inflation-free growth, and in recent years it has become a recurrent challenge in almost every industrialized country in the western world.

It has seemed to the Commission that what is needed is some more direct means of scaling down price and income increases than can be achieved through reliance on market forces alone. That is why the Commission has been trying since last August to enlist the support of all the main groups in the community for a broad program of co-operative action to restrain increases in

As you probably know, a National Conference on Price Stability was held in Ottawa in February and leaders of business, agriculture and the professions approved the principle that price increases during 1970 should be kept clearly less than cost increases. The application of this principle to all private and public activities was endorsed by the Heads of Government at a federal-provincial conference later in the same month.

The Commission now has staff and procedures for exercising surveillance over price increases across a very wide range of private and public business activity, and for reviewing price and cost increases to make sure that this basic pricing principle is being observed. A substantial number of formal reviews are now under way or completed, and an even larger number of informal investigations have been conducted. In several instances price increases have been rolled back, and in many others firms have decided not to proceed with price increases which they had been considering. We have also had an encouraging degree of co-operation from a number of major professional associations in postponing or limiting increases in their fee schedules.

In recent months there has been some evidence of modest progress in slowing down the rate of price increase. Consumer prices, which were rising at something like 5½ per cent a year in the first half of 1969, have been running at an annual rate of

...5

around four per cent in recent months and in May 1970 were 3.8 per cent above the level of a year earlier. This is, incidentally, a significantly lower rate of increase in consumer prices than has been occurring in the United States. I would not claim that our own efforts in the direction of price restraint have been a very important factor in the progress made to date on the price front in Canada. The principal factors have been a squeeze on profit margins in a number of important industries and the absence this year of widespread increases in sales taxes. Another welcome development of recent days has been the reduction in chartered bank lending and mortgage rates, which suggests that the long upward climb of interest costs may now be in the process of changing direction.

Before we throw our hats in the air, however, I think it is worth noting that so far the impact of official policy measures and the Commission's restraint program has been entirely on areas such as prices, profits, professional fees and borrowing costs, and not at all on labor costs. This is rather disturbing because there are limits to how far large increases in labor costs can be absorbed through declining profits before firms begin to cut back on their hiring and expansion plans. Nor would it be realistic to count on the continued co-operation of the business community in limiting price increases, or professional groups in limiting fee increases, if no limit were to be recognized on the size of wage and salary increases.

The other side of the coin is that the Government has already taken significant steps to ease the recent degree of fiscal and monetary tightness, and that it wants to press ahead with further measures to expand job opportunities and promote stronger economic growth. But, if substantial expansionary moves are not to set prices rising faster again a few months from now, steps to contain rising labor costs more effectively than in the recent past are essential. There is simply no way in which such an important component of total production costs as wages and salaries can continue to rise as rapidly as in recent months without resulting sooner or later in substantial price increases to consumers.

That is why earlier this month the Commission asked for the support of the federal and provincial governments in extending the existing restraint program to include limits on wage and salary increases as well as on increases in prices and in other forms of income. By broadening the fight against inflation in this way we can not only save existing jobs but enable the government to act to create more new job opportunities without serious risk of renewed inflation.

What the Commission has done is to establish a yardstick as a guide to what constitutes a reasonable upper limit for wage or salary increases in present circumstances.

Subject to certain exceptions, current increases in annual salary or wage rates for any particular job level in public

...7

or private employment, organized or unorganized, should not exceed six per cent. In many cases, of course, employees will not be able to obtain increases as large as six per cent.

The six-per-cent figure has not been pulled out of thin air. It allows both for the long-term average increase of around 2½ per cent annually in national productivity - that is to say in average real output per worker - and for a possible increase in consumer prices over the next 12 months of around 3½ per cent.

The figure for the average increase in output per worker is based on Canadian experience over a long period of years. It is an important figure because it tells us roughly how much additional output we can expect the economy to be able to deliver to back up the average pay increase. Average productivity improvement has of course been somewhat below 2½ per cent in certain years and somewhat above it in others, but these variations have tended to be offset by temporary increases or decreases in the share of total income going to wage and salary earners.

Now in considering what it might suggest as a reasonable upper limit for wage and salary increases in present circumstances, the Commission recognized that in addition to the 2½ per cent allowance for productivity improvement there would have to be some allowance for rising consumer prices over the next 12 months. As I have mentioned, the rate of increase in consumer prices has recently slowed down to an annual rate of about four per cent, and the objective has to be to slow it down considerably further. But

...8

this will not happen automatically and it will not happen overnight, given the magnitude of current cost increases including increases in wage and salary costs.

The essential point, it seemed to us, was that from now on we should try to avoid building into the economy a structure of future labor costs which would make impossible further progress in reducing the size of price increases. If for example most pay increases covering the next 12 months were to be as high as 8½ per cent, sooner or later prices would have to rise at something like a six-per-cent-annual rate to be consistent with the 2½ per cent average annual improvement in productivity. Pay increases of as high as six per cent, on the other hand, would be consistent with a further reduction in the annual rate of consumer price increase to something like 3½ per cent over the next 12 months. Employees who accepted pay increases of six per cent or less could be protected by their employers against the risk of a larger price increase than 3½ per cent through reopening clauses in collective agreements or some other means of providing compensation against such an eventuality. It is envisaged that a few months from now, given sufficient progress on the price front, an upper limit of less than six per cent for pay increases might become desirable to be consistent with a rate of price increase of less than 3½ per cent.

Pay increases of six per cent or less would be appreciably smaller than the increases of eight-nine per cent which have become

common in recent months, as indeed they will have to be if the rate of price increase is not to speed up again. On the other hand it is worth noting that the average size of second- and third-year increases coming into effect during 1970 under major collective agreements signed during the last two years is of the order of six per cent.

The Commission has taken the view that in certain exceptional cases a wage or salary increase greater than six per cent might be justified in present circumstances. These would include the case of larger increases obtained by employees currently earning less than $2 per hour or $350 monthly salary, cases where larger increases could be shown to be necessary in order to maintain or attract an adequate work force, and cases where the removal from collective agreements of specific restrictions on work practices could be shown to lead directly to unusual gains in productivity. The six-per-cent limit on increases is intended to apply to pay rates for a particular job level, not the rate of pay of individual workers promoted to higher levels of responsibility within the job structure.

There are many other detailed questions of interpretation of the six-per-cent upper limit which we have been considering, but which I cannot go into in the limited time at my disposal today. The Commission now is in the process of organizing staff and procedures for surveillance and review of wage and salary increases,

but any elaboration of our plans in this regard will also have to wait until a later date.

Before concluding, however, there are one or two comments of a general character I should like to make regarding the present status of the six-per-cent figure.

I am sure most of you are aware of newspaper reports in recent days of pay increases currently being granted well in excess of the six-per-cent limit. This should not be a cause for undue surprise or alarm. It is typically the case that agreement on the size of wage and salary increases is reached only after a lengthy bargaining process. In many cases offers by employers of pay increases well in excess of six per cent have been on the bargaining table for a matter of weeks or months. It would obviously be unrealistic to expect such offers to be withdrawn and the whole bargaining process to begin again simply because the Commission had recently given its views regarding the appropriate size of newly-granted wage and salary increases.

A second point concerns the degree of support which can be expected from governments in attempting to get widespread observance of the Commission's suggested guideline. As you may be aware, the Commission's proposals were recently discussed at a meeting of federal and provincial ministers of finance and treasurers in Winnipeg, and discussions with a number of the governments

represented are continuing on an informal basis. In general, the Commission's suggestions have been well received by the federal and provincial governments as a reasonable approach to the problem, and it has been strongly encouraged to press ahead with its efforts to gain general acceptance of meaningful restraint in wage and salary matters.

This does not mean, however, that the six-per-cent limit is more than what it is - an attempt to spell out in rather more precise terms what is meant by realistic and responsible behavior in the granting of pay increases in Canada's present economic circumstances. The Commission has put this suggestion forward because of its belief that current ideas regarding the appropriate size of wage and salary increases are quite unrealistic in terms of the real economic benefits they are thought to make possible. Indeed such ideas stand in the way of responsible government action to stimulate more rapid economic growth and expanding job opportunities.

The limits proposed by the Commission are not, of course, the law of the Medes and the Persians, and those who disregard its suggestions are not in danger of being put in jail. The public has a right to know, however, what constitute reasonable limits for pay increases, and to know that those who disregard them are acting against the rest of society. For everyone who without adequate justification is strong enough to get a wage or salary increase far larger than the economy can deliver on average,

...12

someone else who is weak, old or unorganized is forced to accept a below-average increase - or even a reduction - in his real standard of living as a result of rising prices. And so long as this goes on, it will be very difficult to press ahead with measures to stimulate economic activity and employment without serious risk of even worse inflation than we have seen so far.

__________ __________ __________

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release

Friday, July 10, 1970

West Memorial Building,
344 Wellington Street,
Ottawa.
Telephone: 995-6357

NEWS RELEASE

The Prices and Incomes Commission is proceeding with price reviews of air fares, cement, edible oils, milk in the Ottawa area and certain bread prices announced by bakeries in the Toronto area.

Air Canada and CP Air have notified the Commission that they intend to increase air fares and have filed new rate schedules with the Canadian Transport Commission. The new schedules involve increases in domestic airline fares to be implemented Aug. 5. Higher personnel and financing costs are cited as reasons for the increases.

Cement prices were advanced by $1.25 per ton or approximately five per cent by four major producers. The increase applies to sales in the Maritimes and Ontario. Price increases were effective May 1 and June 1 of this year.

Edible oils have increased substantially in price at the manufacturers' level since the beginning of this year. Included in the edible oils group are such well-known products

...2

as margarine, shortening and cooking oil. Margarine price increases have averaged five per cent at the manufacturers' level and retailers have passed these costs on to consumers. Manufacturers point out that the cost of raw material oils has risen steadily since this time last year.

Three Ottawa dairies have recently raised the wholesale prices of milk and other dairy products. The amount of the increase varies with the product and the container size. Homogenized milk has increased between one and two cents per quart on the average. Home delivery prices have also been increased but to a lesser extent than for wholesale.

The Commission is also reviewing increases in the wholesale prices of bread which have been posted in recent weeks in Toronto. The increases amount to about one cent on the average loaf. The review will concentrate initially on four of the main bakeries which account for the bulk of production.

These reviews are in addition to a number of full-scale studies already under way including coffee, canned foods, tires, railway freight rates, fine papers, copper and milk in Vancouver.

- 30 -

CANADA

Prices and incomes commission

Commission des prix et des revenus

August 7, 1970

NEWS RELEASE

The Prices and Incomes Commission will carry out price reviews of automotive products, specialty steels, coal, certain name brand tires and footwear.

The study of automotive products will include a review of prices for 1971 models produced by all major Canadian motor vehicle manufacturers. Although none of the Canadian motor vehicle producers has yet announced firm prices for 1971 models, preliminary contacts have already been made with some of the companies and meetings are scheduled for next week.

The Commission will not review provisional billing prices which will be superseded by firm prices when the new models are available for sale.

Prices of both domestic and imported coal have been increasing. The Commission is therefore conducting a review of price and cost changes in the industry.

A study of name brand tires will concentrate on tires sold by major retailers of automotive products who sell tires under their own brand names. This review follows a study released last month dealing with rubber tires produced and sold by certain major tire manufacturers.

Prices of leather footwear, including children's footwear, have been increased and the Commission intends to review the reasons for the increases.

To date the Commission has published price reviews on eleven commodity groups and services including air fares, coffee, railway freight rates, rubber tires, milk in Vancouver, fine papers, duplicating supplies, glass jars, tin containers, tin plate and steel.

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Release at 12:30 p.m. EDT

West Memorial Building,
344 Wellington Street,
Ottawa, Canada.

Tel.: 995-6357

Address delivered by
John H. Young,
Chairman,
Prices and Incomes Commission,
to the
Rotary Club of Montreal,
Tuesday, August 11, 1970.

Queen Elizabeth Hotel,
Montreal, Quebec.

Let me begin by expressing my appreciation for the opportunity to be present with you today and to offer some brief remarks.

As you probably know, the Prices and Incomes Commission was established by the federal government about a year ago with a broad mandate to enquire into the whole problem of inflation and to advise on ways of dealing with it. The symptoms of the problem have been abundantly evident in the substantial and continuous upward movement of prices in Canada over the last five years. The resulting uncertainty and fear about what will happen to prices in the future explains why each group in the community now feels that it must obtain a substantially larger increase in its earnings than in the past if it is to maintain or increase its share of national output.

That is perhaps the main reason why it is so difficult, in a country which has been experiencing a substantial rate of inflation over several years, to get prices under better control and to keep them under better control. There is no way of slowing down the rise in prices without at the same time slowing down the rise in money incomes. But while each group in the community is heartily in favor of others holding the line on prices, it is just as heartily opposed to limiting its own demands for more money income.

This creates a serious dilemma for a government which wants to bring inflation under better control. A combination of sufficiently tough budgets and sufficiently tight money will in the end frustrate attempts by private groups and individuals to lever up their earnings through the prices they charge for the goods and services they supply. But the process is likely to be a painful one for those least able to defend themselves - the members of the work force whose skills are least in demand by employers, and the firms most vulnerable to a worsening of economic conditions. It is also likely to be a costly process for the community as a whole because of the temporary adverse side-effects on the growth of production and employment.

It is because the principal means available to governments for combatting inflation have these disadvantages that the Commission has been attempting to devise a more direct way of getting at the problem. As you probably know, the Commission has worked out with representatives of the business community a program for restraining price increases during 1970 under which all business firms in the country are expected to ensure that any increase in their prices is less than the amount needed to cover the increase in their costs. The Commission now is actively engaged in the surveillance and review of price increases, and both the federal and provincial governments have lent their support to our efforts.

Current developments in prices have been encouraging. The increase in the consumer price index between June 1969 and June 1970 was 3.2 per cent - a full two per cent less than it was over the previous 12 months. The figure of 3.2 per cent can be compared with an increase of around six per cent in the United States and increases ranging from just under four to over eight per cent in the other major industrial countries.

To the extent that business firms in Canada are limited in their ability to raise prices - whether by the Commission's price restraint program or by market conditions - increases in business income are subject to a restraining influence, and there has been growing evidence of a profits squeeze in recent months.

But temporary success in limiting increases in prices and profits is not likely to achieve marked or lasting results unless a parallel degree of restraint can be brought to bear to limit increases in salaries and wage rates. Taken together, corporate profits, wages and salaries accounted for about 85 per cent of net national income in 1969, with wages and salaries roughly six times larger than corporate profits. Labor costs are thus by far the most important single element of production costs for the economy as a whole.

Two months ago the Prices and Incomes Commission asked for the support of the federal and provincial governments in proposing that the price and income restraint program be extended to wage and salary increases. The Commission suggested that in present circumstances annual wage and salary increases should not exceed six per cent except in certain cases where special, clearly defined grounds for justifying a larger increase were present. The extent to which particular provincial governments have felt able to provide direct support for the Commission's proposal in the two months since the Winnipeg conference has not been uniform and has been subject to qualifications of various kinds.

In taking this initiative, the Commission was aware of the fact that in recent months the rate of price increase in Canada had moderated significantly, that the pace of economic activity had turned sluggish, and that unemployment had risen considerably. It also knew that government policy had begun to move in the direction of easing the existing degree of monetary and fiscal restraint

so as to bring the economy back to a path of stronger growth and expanding job opportunities. But it was also aware that a reduction in the size of wage and salary increases was essential if these expansionary moves were to achieve their purpose without a serious risk of renewed inflation.

In recent weeks there have continued to be reports of groups of employees obtaining pay increases which seem very large indeed - in some cases involving annual increases of as much as 15 or even 20 per cent. One of the puzzling features about such reports is how the employers who grant such large wage and salary increases expect to pay for them. The list of possibilities is not a long one, and deserves closer examination.

Before doing so, however, it is worth noting that wage and salary increases of this magnitude are the exception rather than the rule in Canada, in spite of the degree of public attention which they attract. The federal Department of Labour compiles data on average increases in base rates of pay under major collective agreements in a wide range of industries excluding construction. The latest figures indicate that during the first six months of 1970 the average size of annual

increases provided for over the life of major new agreements signed during this period was a little less than nine per cent, compared with an average of around $8\frac{1}{2}$ per cent in 1966-67 and of eight per cent in 1968-69.

These figures should be interpreted with caution, since the number of employees covered by major new collective agreements during a short period is a small fraction of the total labor force in Canada and the increases received by these well-organized groups may be somewhat larger than those obtained by the smaller unions and by unorganized workers. For what they are worth, however, the figures seem to indicate that the average size of wage and salary increases is still in the eight to nine per cent range experienced during the previous four years.

The fact remains that pay increases of this magnitude are disturbingly large - about twice as large as those typically seen when prices were reasonably stable during the first half of the '60s, and significantly larger than the figure of six per cent suggested by the Commission as a reasonable upper limit under today's conditions.

How is it that employers feel they can afford to grant such large pay increases in the face of difficult market conditions and declining profit margins?

One possibility is through expected improvements in productivity. To the extent that a firm can produce the same output with a smaller work force or with fewer man-hours of labor, these savings offset the higher salaries and wage rates the firm agrees to pay to its employees.

But the record of productivity improvement in Canada over a period of many years does not offer much support for the hope that this particular form of cost-saving will go a long way towards paying for eight to nine per cent increases a year. Over the last 15 years, output per person employed in the commercial economy as a whole, excluding agriculture, has increased at an average annual rate of not much more than $2\frac{1}{2}$ per cent. In periods of sluggish economic growth such as we now are experiencing the rate of productivity improvement has typically been negligible or has even declined.

It is true that this is a temporary phenomenon and that we can look forward with some confidence to substantial productivity gains as economic expansion

gathers strength. This is because the economy's productive capacity will be better utilized and because current efforts to combat declining profits through improved efficiency should be coming to fruition. Better productivity is extremely important and very much to be welcomed. But it would be unrealistic to expect the economy to be able to digest pay increases of anything like eight to nine per cent from this source alone.

A second possibility is for employers to pass along to their customers in the form of higher prices as large a proportion as they can of the increase in their labor costs. Their ability to do so is, of course, subject to various limits. These include not only the Commission's price restraint program which requires some absorption of cost increases, but also the extent to which they risk having their prices undercut by domestic or foreign competitors or otherwise seriously affecting their sales volume.

In certain industries this may not be a very serious risk even when market demand is relatively weak. This is true especially where there is a limited number of suppliers all facing similar increases in their labor

averaging eight to nine per cent than to take a determined stand against granting pay increases in excess of six per cent, particularly if such a course of action is likely to involve the employer in a costly industrial dispute.

It is true that in acceding to such large increases in their labor costs in existing market conditions the immediate profit position of the firms involved is likely to suffer. For the time being they will do what they can to minimize their labor costs by laying off marginal employees and being very selective in hiring new employees. If the squeeze on their profits becomes serious enough they may have to defer capital expansion projects to a later date.

But if their hopes are realized, market demand will eventually improve. This will mean higher output, improved productivity, and a better chance to raise their prices enough to pass along their accumulated cost increases together with a wider margin of profit.

How likely is it that before long economic conditions in Canada will again be such that firms can make large price increases with impunity? In short, is it a good bet for employers to let their labor costs continue to build up as rapidly as in recent years?

For the time being these cost increases will have to be paid for at least in part through lower profits. But many businessmen seem to be assuming that before long it will again be possible to pass the whole of these cost increases back to the public in the form of higher prices.

What this calculation implies, however, is that it would be acceptable to Canadians to see prices begin rising again at higher rates than at present. I find this difficult to believe. Perhaps it would be well for employers to think twice before assuming that future events will come to their rescue in this way.

Difficult as it may seem, the only sure way back to conditions of non-inflationary economic growth is through a progressive moderation of increases in labor costs, profits and prices together.

ANADA

Prices and incomes commission

Commission des prix et des revenus

August 14, 1970

West Memorial Building,
344 Wellington Street,
OTTAWA, Canada

PRESS

NEWS RELEASE

The Prices and Incomes Commission has carried out a study of revisions to passenger fares implemented by two of Canada's regional air carriers.

Effective March 8, 1970, Pacific Western Airlines Ltd. revised fares on certain interior and coastal short-haul routes. The revisions included one fare reduction and a number of increases. The company stated that the higher fares were necessary to recover increased costs of operations.

On March 10, 1970, Transair Ltd. made changes in its air fares. These changes involved one fare reduction, increases in fares for six routings, minor revisions to group and family fares and the introduction of senior citizen standby fares. The company stated that the changes were being made to cover increased costs, to be consistent with competitive rates and to set the fare structure on a seat-mile basis where possible.

...2

Both Pacific Western and Transair recently announced further changes to certain fares to bring them into line with revisions implemented by Air Canada and CP Air effective August 5, 1970.

The Prices and Incomes Commission undertook an investigation to ascertain whether the fare revisions by the two regional carriers were justified within the terms of the price restraint criteria agreed to at the National Conference on Price Stability held in February, 1970.

Revenue, cost and profit data were requested from each of the companies, including historical information and projections of results for 1970.

Pacific Western forecasts that its 1970 airline operations will show a decline in the ratio of net-profit to sales revenue compared to the base year 1968. Revenue increases therefore would be clearly less than cost increases. The year 1969 could not be used as a base year because profits were adversely affected by unusual operating expenses.

Transair has incurred operating losses for some years. Although the projection for 1970 shows an improvement from the loss positions of both 1968 and 1969, the

rate of return is within the provisions of the criteria.

In both cases, therefore, it was found that the fare revisions complied with the price restraint criteria.

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release

Aug. 21, 1970

West Memorial Building,
344 Wellington Street,
Ottawa, Canada.

Tel.: 995-6357

NEWS RELEASE

On Aug. 17, 1970, the Crane Rental Association of Ontario and Local 793 of the International Union of Operating Engineers announced settlement terms of a three-year collective agreement covering crane operators employed by members of the Association.

The settlement provides for increases in wages and vacation pay for crane operators of more than 15 per cent per year, totalling more than 50 per cent over the life of the contract. At the end of the last contract straight-time rates of pay ranged from $5.25 to $5.65 per hour, or about $11,000 annually, for the 80 per cent of those crane operators who obtain a full year's work. As of Nov. 1, 1972, straight-time rates will become $8.00 - $8.40 per hour, or approximately $17,000 per year.

These figures substantially understate the total earnings of crane operators since a certain amount of overtime at double rates of pay has become standard in the industry.

It will be obvious to the most casual observer that these pay increases are far above the six-per-cent ceiling which the Prices and Incomes Commission has put forward as a reasonable upper limit in present economic circumstances if progress in overcoming inflation is to continue.

The Commission has recognized that in certain exceptional cases settlements in excess of six per cent might be regarded as justifiable. These include:

- Cases involving relatively low-paid workers;
- Cases where serious difficulty in attracting or maintaining an adequate work force can be demonstrated;
- Cases where changes in work practices can be shown to lead to unusual gains in productivity;
- Cases where rates of pay have fallen so seriously behind those of comparable groups as to create major distortions of the wage structure.

The settlement obtained by the crane operators cannot be regarded as falling into any of these exceptional categories.

Earnings of this group are already substantially higher than average annual incomes received by Canadian workers as a whole. They are also higher than for most workers of comparable skill and responsibility including, in particular, other crane operators in the Toronto area. In 1969 their incomes placed them in the top seven per cent of income earners in the country.

This settlement has occurred in the face of a prospective decline in the volume of construction activity in the Toronto area and elsewhere. There is no evidence that pay increases of this magnitude were required in order to attract or maintain an adequate supply of crane operators. Nor did the settlement include changes in work practices designed to yield unusual productivity gains.

Representatives of the Prices and Incomes Commission met with representatives of the Crane Rental Association and the International Union of Operating Engineers some weeks prior to settlement. At that time both parties recognized the implications of a long-term

settlement at such high levels and implied that they would be receptive to a one-year agreement. In fact, however, a three-year agreement has emerged that reveals no concern whatever with future cost, price or employment levels in the construction industry.

The Commission recognizes that many other skilled construction trades in the Toronto area received very large wage increases in 1969 settlements running through to the spring of 1971. Conceivably, therefore, there might have been some justification at this time for a one-year settlement which would have brought the termination date, rates of pay and working conditions of the crane operators' contract more into line with those of comparable trades in the area. Instead, there is a serious danger that this settlement will be taken by other employee groups as a target for the pay increases sought in their new contract negotiations in the spring of 1971.

The potential economic consequences of the crane operators' settlement can be put very briefly.

These increases of around $3.00 per hour apply to a small number of workers, and thus their direct impact on the total cost of construction projects will not be large. It may seem to the employers and employees directly involved that these additional costs can be passed on to the public almost unnoticed.

But this assumes that other employee groups will feel less entitled to equivalent pay increases, or that other employers will be more able to resist such demands. The recent history of collective bargaining in the construction industry does not offer much support for these assumptions.

This leaves only two broad alternatives.

One is that the public will continue to be willing and able to foot the bill for higher and higher construction costs, whether through further increases in rents or in product prices.

The other is that mounting public resistance to footing the bill will force the deferment or cancellation of many planned construction projects. The consequences may not be of great moment to the crane operators or to their employers, but they most certainly will be to those construction workers and contractors who find themselves without work or driven into bankruptcy.

CANADA

Prices and incomes commission

Commission des prix et des revenus

September 4, 1970.

FOR IMMEDIATE RELEASE

Statement by John H. Young, Chairman of the Prices and Incomes Commission on the Postal Settlement

The Commission has assessed pay increases provided in the postal settlement as being an average of 6.8 per cent per year over the 30 months of the contract from Oct. 1, 1969. This clearly exceeds the guideline. It should be noted, however, that the portion of the increase to be effective in the period prior to announcement of the Commission's guideline in June is the key factor pushing the settlement beyond six per cent. In the last two years of the contract from April, 1970, to April, 1972, the increase provided is well below the guideline.

There are two important points to be made with respect to this proposed settlement.

The first is that this is by no means the first breach of the guideline since virtually all settlements in recent weeks have been above the suggested norm. While it is true that there is little evidence as yet that wage and salary increases are becoming smaller, it would be very surprising if they failed to

respond to the lower rate of price increase, the higher level of unemployment and the contraction of profits. The postal settlement, which is lower than a number of recent major settlements, is a step in the right direction.

The second point to be made is that cost increases will have to decline or the country is going to be faced with a hard choice among three possibilities -- continued high unemployment, severe inflation or mandatory controls. No one wants unemployment, few want a resumption of price inflation and many strongly oppose wage and price controls. Yet these bleak alternatives are the only ones available if we Canadians fail to exercise commonsense and economic realism.

- 30 -

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Release at 3:30 p.m. EDT

West Memorial Building,
344 Wellington Street,
Ottawa, Canada.

Tel.: 995-6357

Address delivered by
John H. Young,
Chairman,
Prices and Incomes Commission,
to the
Vancouver Board of Trade,
Monday, September 14, 1970.

Vancouver, B. C.

What I want to talk about today is how things now stand in the battle against inflation and what the prospects look like for the balance of this year and into 1971.

To put matters into perspective, it may be helpful to begin with a brief backward look at how the effort to control inflation has gone since the Prices and Incomes Commission appeared on the scene in July of last year.

If you will cast your minds back to that period, you may recall that the economic atmosphere was very different from what it is today. The Consumer Price Index in Canada had risen by more than five per cent over the previous 12 months. New wage settlements were providing for annual increases of more than 7½ per cent and appeared to be rising. Both in Canada and in the United States budgetary and credit restraints had been in effect since the previous autumn, but up to then without any very marked dampening of price and cost increases or the vigorous pace of business activity. The prevailing mood was one of widespread skepticism that the inflation which had been raging through North America for the last four years would or could be brought under control.

In its initial public statements the Commission argued that this skepticism was mistaken. It seemed clear to us that the authorities both in Ottawa and in Washington were committed to the view that they had no realistic alternative but to come firmly to grips with the problem of inflation. The Commission also pointed out that unless there were an early reduction in the size of price and income increases, the monetary and fiscal measures available to the authorities for bringing inflation under control might well, for a time at least, result in a severe drag on the growth of production and employment. We suggested that if direct pressure could be brought to bear on a broad front to scale down the size of price and income increases generally, it might be possible to shorten and soften the painful period of adjustment to a more stable price level.

The Commission's initial line of attack was to explore the possibility of working out a joint restraint program involving business, government, labor and other organized groups. It was hoped that out of these discussions might emerge broad agreement on a set of ground rules to give practical meaning to price and income restraint. The Commission also hoped to obtain general acceptance of the

need for effective surveillance and review procedures to ensure that these ground rules were being observed, and for effective pressure to be brought to bear by governments in serious cases of non-compliance. It was recognized that if price and income restraint were to apply generally and equitably across the country, the approach I have just described might have to be supplemented in certain areas - such as house rents and income from commodities sold mainly on world markets - by regulatory or fiscal action on the part of governments.

As I am sure you know, this way of attacking the problem had to be abandoned last October in view of the opposition of organized labor, and the Commission had to fall back on a more piecemeal alternative approach. The support of the business community, professional groups and governments was obtained for a general program of direct restraint on price increases, backed up by price surveillance and review procedures and by the application of governmental pressure to help ensure compliance. The general principle to be observed in pricing policies was that prices should be set at a level which would cover less than the full amount of cost increases. In effect, therefore, business firms were expected to accept a contraction of their profit margins during 1970.

Since the conference the degree of co-operation and support of the business community for the price restraint program and its objectives has been very encouraging to the Commission.

We recognized from the outset, however, that the program would have limited scope in significantly slowing the rate of price increase unless effective restraining pressure was also brought to bear on the size of wage and salary costs. As everyone knows, this has not proved to be easy.

Once the price restraint program was reasonably well established, the Commission put forward a proposal that, subject to certain exceptions, annual increases in salaries and wage rates in present circumstances should not exceed six per cent. Pay increases of this magnitude would allow for the $2\frac{1}{2}$ to three per cent average annual increase in output per employee which the economy has in fact been able to deliver over a period of many years, and would at the same time allow for something like the current rate of increase in consumer prices of three to $3\frac{1}{2}$ per cent over the next 12 months. The Commission pointed out that the size of pay increases would have to moderate at least to this extent if economic expansion were to resume and unemployment fall without a serious risk of prices beginning to rise more rapidly again a few months from now.

In putting forward this suggestion we were very much aware that any such extension of the existing program of restraint on price and profit increases could not in all fairness stop with wages and salaries, but should extend to other important forms of income as well. Indeed, in seeking the endorsement of governments for the price restraint program at the Federal-Provincial Conference of First Ministers back in February of this year, we had urged the provincial governments to consider action to restrain increases in rents and professional fees. Thus, when the Commission put its proposal for wage and salary restraint to the federal and provincial governments in Winnipeg in June of this year, it suggested at the same time that further restraining action would be required by some provinces in areas such as rents and professional fees in order to make wage and salary restraint more acceptable.

The Commission's proposal, which was supported by the federal government, was received sympathetically by most of the provinces, although the extent to which particular governments were prepared to offer support was not uniform. The Government of Manitoba, for example, while prepared to give positive support to an effective cost and income restraint policy, felt that the proposal was too narrow in

scope. It felt that all income sources including profits, dividends, rents, professional fees and interest should be subject to equivalent review and limitations, and that such action should be coupled with intensified efforts to reduce economic and social disparities and regional imbalances. In general, the degree of support which most governments have felt able to give the Commission's proposal in the three months since the Winnipeg conference has been subject to a variety of qualifications.

Meanwhile, important changes have been taking place in underlying economic conditions in response to the whole range of measures employed over the last year and a half both in Canada and in the United States to combat inflation. The main ways in which the economy has responded to these measures can be summarized briefly.

To begin with, the growth of public and private spending in the economy now is rising in total at a much more subdued rate than was the case a few months ago. Gross national expenditure, which had risen by 11.6 per cent from the fourth quarter of 1968 to the fourth quarter of 1969, has since risen at only about half that rate.

With spending in the economy growing much more slowly, there has been a significant moderation of the rate of price increase, but an even sharper impact on the growth of production and employment. Indeed, in the second quarter of this year the growth in the physical output of the economy came virtually to a standstill. Since the labor force has continued to expand more rapidly than employment opportunities, there has been a sharp rise in the unemployment rate to more than $6\frac{1}{2}$ per cent.

So far as it goes, this moderation in the rate of increase in the price level can be regarded as encouraging. Over the last 12 months the Consumer Price Index in Canada has risen by less than $3\frac{1}{2}$ per cent. This is a substantially smaller increase than that which occurred during the preceding 12 months. It is also substantially less than the rise in consumer prices in the United States over the last 12 months (which has been close to six per cent) and is in fact about as small an increase as has been recorded in any western industrialized country during this period.

There are, however, other ways of looking at the recent behavior of prices in Canada which are much less comforting.

It is rather ironic that we find ourselves drawing encouragement from an annual rate of increase in consumer prices of something less than 3½ per cent. A few years ago people would have regarded such a rise in prices as a matter for considerable alarm, since in most years during the 1950s and early 1960s the annual rise in prices was in the range of one to two per cent. It is worth recalling that a rate of increase in prices of 3½ per cent a year continued over a period of 20 years results in a doubling of the price level, and thus cuts the purchasing power of money in half. If this rate of inflation is to be regarded as about as moderate as people have a right to expect, it is difficult to see how wage and salary earners who are presently 20 years away from retirement can take much comfort as they consider what their pension rights and retirement savings will be worth at the end of their working careers.

It is also disturbing that the reduction in the rate of price increase has not as yet been accompanied by any very clear signs of a corresponding moderation in the size of wage and salary increases. Major wage settlements in the second quarter of 1970 provided for average annual increases of 8½ per cent, far larger than the long-run average annual increase of 2½ to three per cent in national

productivity. Corporate profits, by contrast, were down by more than eight per cent in the second quarter from the level of a year earlier. Profits per unit of output, which are broadly indicative of profit margins, were down even more sharply, by more than 11 per cent.

What we have, then, is an economy which is currently displaying somewhat improved price performance but under temporary conditions which are highly abnormal. The important question is whether we can continue to improve on this price performance as the economy moves back to a more normal rate of growth with the level of unemployment moving down and profit margins beginning to recover from the current squeeze.

In recent months the thrust of monetary and fiscal policy both in Canada and in the United States has been shifting progressively towards stimulation of renewed economic expansion. The results of this change in policy emphasis should become increasingly apparent over the months ahead. How far and how fast the authorities will feel able to continue to move in this direction is, however, by no means certain. If labor cost increases of the size that we have seen recently continue to be built into the future

structure of production costs, there is simply no possibility of escaping either a renewed upsurge in prices at some later stage in the process of economic recovery, or else a bogging down of the recovery itself.

It is to be hoped that this gloomy view does not turn out to be the right one. If the size of wage and salary increases should fail to respond at all quickly or in any marked degree to the anti-inflationary efforts of the last two years, the possible courses of action open to the authorities would all be bleak ones. To continue to press ahead with expansionary policies in such circumstances would all but guarantee that these large increases in labor costs could be passed on to the public without difficulty in the form of correspondingly large price increases. To call a halt to the expansion of the economy would entail further losses of potential output and continued high unemployment. To resort to some form of compulsory price and income controls would almost certainly involve a very broad and unwelcome intrusion by government into private decision-making in economic matters.

If the need to control inflation is seen to be inescapable, while counter-measures which run the risk of increasing unemployment are regarded as uncivilized,

voluntary restraints are regarded as ineffective, and mandatory controls are regarded as unthinkable, the circle is complete. Of course, if it were to come to this, an answer would nevertheless have to be found and a choice made of some combination of these unpalatable alternatives.

On the other hand, it is possible to take a more hopeful view that wage and salary increases will indeed respond before long, as they have in the past, to a weaker market demand for goods and services, higher unemployment and excess capacity, lower profits and a slower rise in the cost of living. The fact that so little response is visible as yet is no doubt attributable, in part at least, to the unusually long period of unbroken expansion and strongly rising prices from which we are now emerging. It can also be argued that many of today's wage settlements stem from negotiating positions adopted several months ago on the basis of views about the state of the economy which have since turned out to be quite unfounded.

In short, a case can be made that the fires of inflation in Canada are definitely on the wane and that increases in labor costs should soon be responding to the changed economic environment. At present this case must

be based almost entirely on past experience with very little current evidence available as yet to support it. It is already clear, however, that an earlier return to commonsense and economic realism in the size of pay increases might have enabled us to avoid much of the unemployment and loss of output that we are now experiencing. It is also clear that decisions taken now to moderate cost increases can have an important effect on the position in which we are likely to find ourselves a year from today.

- - -

CANADA

Prices and incomes commission

Commission des prix et des revenus

Toronto, Ontario,
September 28, 1970.

Notes for Use by John H. Young,
Chairman, Prices and Incomes Commission,
at the Annual Meeting of the
Canadian Electrical Manufacturers' Association

The Commission has received a number of enquiries regarding the status of the restraint program after December 31st, 1970, particularly from firms considering their pricing policies for 1971.

At the National Conference on Price Stability last February the Commission made it clear that the present program was designed to help meet a current problem and that it would be phased out as soon as conditions made this feasible. The Commission indicated that the application of the price restraint criteria, which business firms were being asked to observe during the year 1970, would not be extended into 1971 without renewed discussions with the business community and sufficient support on their part for such an extension. Preliminary discussions now are under way with a number of business organizations and leading businessmen on what form of program, if any, might serve a useful purpose and gain wide acceptance after the end of the year.

. . .2

At the same time the Commission is continuing its efforts to influence the size of wage and salary increases. While the results so far have not been very encouraging, the degree of success ultimately achieved is bound to be affected by the behavior of prices not only over the remainder of 1970 but well into 1971 as well.

- - -

CANADA

Prices and incomes commission

Commission des prix et des revenus

West Memorial Building,
344 Wellington Street,
O T T A W A

Telephone: 995-6357

For Immediate Release

October 7, 1970

NEWS RELEASE

WAGE SETTLEMENTS IN THE ONTARIO RETAIL FOOD INDUSTRY

Wage and salary negotiations affecting employees of three major food retailing chains in Ontario have now been substantially completed. The average wage increase for full-time employees for a period of something over two years is estimated by the Prices and Incomes Commission to be about 26 per cent, or around 11½ per cent per year. The annual rate of increase is thus close to twice the six per cent ceiling which has been put forward as a reasonable upper limit in present economic circumstances if progress in overcoming inflation is to continue.

The Commission has been unable to find any justification for the amount of these increases in terms of the exceptions announced with the guidelines in June. Full-time workers in the industry are not relatively low-paid. Firms have had no difficulty in attracting or maintaining an adequate work force, nor have rates of pay fallen behind those of comparable groups.

. . . 2

The present settlements were reached without a hint of strike or lock-out, despite the employers' expressed dismay about the size of the increases.

This can perhaps be more easily understood by recognizing that in some ways the food retailing industry is similar to construction — another area where wage settlements have been excessive.

Both industries sell a service which cannot readily be imported and for which there is no close substitute. This means that price increases which are industry-wide have little effect on sales by individual companies. Thus it is not difficult for firms to pass on to consumers the cost of excessive wage and salary increases.

The companies and unions involved are:

Steinberg's Ltd.,and Amalgamated Meat Cutters and Butcher Workers of North America, affiliated with AFL-CIO local 633,

Dominion Stores Ltd., and the Retail, Wholesale, and Department Store Union, and

Loblaws Groceterias Co., Ltd., and the Union of Canadian Retail Employees.

The new contracts cover both full-time and part-time employees. Percentage increases are roughly comparable for both groups but, because of the generally lower wages paid to part-time workers, the Commission is confining its comments to the settlements for full-time employees.

For full-time employees, wage increases range from a low of $27 per week (25%) for some male and female clerks to a high of $45 per week (28-33%) for some department managers and assistants. Improvements in fringe benefits include higher shift differentials, increased premium pay for work on a normal rest day, a total disability salary continuance plan and establishment of a company-paid prescription drug plan, all of which increase the cost of the settlements.

The lowest paid job classification in all contracts is that of Female Clerk. The actual rate and conditions of employment vary from company to company, but a representative Female Clerk with 12 months' experience would have earned about $108 per week or $5,600 per year at the close of the last contract. On June 22nd of next year her salary would be 27½ per cent higher at $135 per week or $7,000 per year. This is an annual rate of growth of 12 per cent.

Male Clerks - the second lowest paid category - do not fare quite as well in terms of percentage increases. At termination of the previous contract, a Male Clerk could reasonably expect to be receiving $112 per week after 12 months' service, or $128 per week after 30 months' service. When the agreed increases are all incorporated in the rates, the same

Clerks will receive \$142 per week (\$7,400 per year) and \$158 per week (\$8,200 per year) after the same periods of service. These are increases of 26½ and 23½ per cent in total or 11.8 and 10.4 per cent per year.

Journeymen meat cutters in the retail food chains earned about \$138 per week, or \$7,200 per year under the old contract. Their total increase in just over two years is 29 per cent and will bring their wages to \$178 per week or \$9,250 per year.

Most chief clerks, assistant managers and department managers who were paid at rates ranging from \$7,500 to \$8,500 per year will rise to between \$9,800 and \$10,700. The percentage increases are between 25 and 31 per cent over two years.

Over the twelve-month period ending June 1970, major industrial settlements have averaged 8½-9% per year. With a long term national productivity increase of 2½-3% a year, this level itself is clearly inflationary. Were these retail food settlements to become part of a general pattern, an even higher rate of inflation could be expected.

As indicated above, there are close similarities between retailing and construction. In the collective bargaining arena, the employers have tended to act independently

while the unions are well organized. In practical terms, this has meant that the unions can and do use the "whipsaw" technique to pick off employers one at a time. Individually, companies have everything to lose and nothing to gain from a strike. Their customers will switch to a competitor for the duration, some never to return, and whatever settlement is reached will simply become the pattern for the industry.

This behaviour would be less disturbing if the retail food industry could be isolated from the rest of the economy. This is, however, not possible. It is true that labor costs represent only 9 to 10 per cent of net sales revenue, so that the current settlement if translated directly into price increases would result in no more than a 2½-3% increase in retail food prices over the life of the contract. With some growth in sales volume and in productivity, the price increase needed to maintain profits and profit margins would be even less.

At the same time, however, other groups - particularly those in closely related industries - will feel they have an equal claim to an increase in real purchasing power of this magnitude. Thus, demands for equivalent increases could spread throughout the economy, raising the cost of goods purchased for resale by the retail food stores. These cost increases

would also be passed on to consumers, and what at first appeared to be an "acceptable" price increase would rapidly become "unacceptable". This, in turn, could produce even higher wage demands "in order to keep up with the cost-of-living".

For the economy as a whole, increases in real income are determined by increases in national productivity. When wage gains in excess of that figure become general, the excess amount will almost certainly be erased by price increases.

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release

October 14, 1970

West Memorial Building,
344 Wellington Street,
Ottawa.

Telephone: 995-6357

NEWS RELEASE

The Prices and Incomes Commission announced that it will immediately undertake a review of price increases announced today by the International Nickel Co. of Canada Ltd. These price increases affect both domestic and export sales.

The company stated that it has increased these prices by approximately four per cent in order to compensate for reductions in Canadian dollar revenue resulting from the unpegging of the dollar in June.

- 30 -

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release

October 16, 1970

West Memorial Building,
344 Wellington Street,
Ottawa, Canada.

Telephone: 995-6357

NEWS RELEASE

The Prices and Incomes Commission will proceed with a review of price increases by a number of major oil companies. These price increases relate to home heating fuel sold in the Atlantic provinces, Quebec and portions of eastern Ontario, and certain bunker, diesel and other fuels. In some cases wholesale gasoline prices in the Atlantic provinces, Quebec and eastern Ontario have also been raised.

Preliminary discussions have already been held with some of the companies concerned.

- 30 -

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release

October 9, 1970

West Memorial Building
344 Wellington Street
O T T A W A

Telephone: 995-6357

NEWS RELEASE

The Prices and Incomes Commission views the arbitration award today to federal government economists, statisticians, sociologists and mathematicians as totally unjustified in the light of current economic conditions and the wage and salary restraint program proposed by the Commission and supported by the Government.

The award of the Public Service Arbitration Tribunal, which affects about 1,000 employees, covers a two-year period from July 1, 1970, and provides increases totalling 15 per cent for employees who have been earning up to $23,500 a year, 14 per cent for those earning up to $22,500 and 13 per cent for all others.

The Commission is also surprised that at this time the tribunal saw fit to extend overtime pay to highly-paid professional employees for hours worked in excess of 37½.

... 2

Few groups in the community should be in a better position than economists in the public service to know that if employee groups generally were to obtain current wage and salary increases of this magnitude, there would be no hope of avoiding a renewal of price inflation.

- 30 -

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release

October 26, 1970

West Memorial Building
344 Wellington Street
O T T A W A

Telephone: 995-6357

NEWS RELEASE

It has come to the attention of the Prices and Incomes Commission that the terms of the temporary restraint agreement made last winter between the chartered banks and the Commission are being cited by certain chartered banks as preventing them from reducing their prime lending rates in present circumstances.

The Commission wishes to make it clear that any such interpretation of the terms of the agreement is unwarranted.

The basic commitments which the banks gave the Commission with respect to their lending rates are set forth in a letter dated Feb. 5, 1970, from the President of The Canadian Bankers' Association to the Chairman of the Commission, as follows:

...2

"We agree to refrain from increasing interest rates charged on Canadian dollar loans in Canada except to the extent of any corresponding percentage point (or fraction of a point) increase in the rates of interest payable on chequable and non-chequable personal savings deposits in Canadian dollars. Rates on personal instalment loans and credit card plans will remain unchanged.

"We undertake, in the event of a reduction in interest rates payable on such savings deposits, to reduce lending rates on Canadian dollar loans in Canada by a corresponding percentage point (or fraction thereof)."

It will be evident that what the banks undertook to do, in the event that they lowered the rates payable on personal savings deposits, was to reduce their lending rates correspondingly.

There is nothing in the agreement, however, which would prevent the banks from lowering their lending rates in the absence of such a reduction in their savings deposit rates.

Indeed, the banks conceded as much when they lowered their prime lending rates by half of one per cent

... 3

effective July 1, 1970. On that occasion they reduced the rate payable on non-chequable personal savings deposit accounts but not, as they could have done under the agreement, the rate payable on chequable personal savings accounts.

It may well be that the banks see difficulties in reducing the rates they pay at present on personal savings deposit accounts, and that they are reluctant, therefore, to make a second reduction in their lending rates which would further narrow the average percentage point spread between the interest cost of deposit funds and the interest earned on loans.

If this is the substance of their position, the banks should make their case on its merits. There is nothing in their agreement with the Commission, however, which entitles them to argue that they are debarred from reducing their lending rates so long as they maintain their personal savings deposit rates at their present level.

CANADA

Prices and incomes commission

Commission des prix et des revenus

Tuesday, October 27, 1970

West Memorial Building
344 Wellington Street
Ottawa

Telephone: 995-6357

Attached is a copy of a letter sent today by the Chairman of the Prices and Incomes Commission, Mr. John H. Young, to Mr. Leslie Barnes, Executive Director of the Professional Institute of the Public Service of Canada.

Also attached for reference is a copy of Mr. Barnes' letter of October 13 to Mr. Young.

CANADA

Prices and incomes commission

Commission des prix et des revenus

October 27, 1970

Mr. L.W.C.S. Barnes
Executive Director
Professional Institute of the
Public Service of Canada
786 Bronson Avenue
OTTAWA, Canada

Dear Mr. Barnes:

I am sorry for the delay in answering your letter of October 13, but as you perhaps know, the Commission has been holding meetings in various parts of the country looking to an extension of the price restraint program. I should like, however, to comment on a number of points in your letter.

Contrary to what your letter implies, the Commission has followed bargaining developments for these groups closely and is well aware that one of five factors the Arbitration Tribunal is required to take into consideration relates to "conditions of employment in similar occupations outside the public service".

The Commission has been unable to find evidence that payment at premium rates for time worked in excess of the standard work week is a common condition of employment for economists and other highly-paid workers outside the public service. On the contrary, the general practice is that professional and other employees earning salaries in the vicinity of $20,000 a year are paid for accomplishment and attainment of objectives regardless of the hours spent.

The most recent data provided by the Pay Research Bureau indicate that average salaries for economists in the public service were slightly below those of their counterparts in private industry as at July 1, 1970. In the Commission's view, your demands have reversed this position, putting public servants in an exceptionally favourable position in relation to the majority of industrial economists. A great number of public service economists, sociologists, statisticians and mathematicians

.../2

will receive overall salary increases (including statutory and merit increases within the revised ranges) of between 11 per cent and 13 per cent for the year ending June, 1971, and only slightly smaller increases for the following year.

In addition, the Commission has substantial direct knowledge of the pay and work of economists in a number of areas including the universities. The Commission does not consider that an objective comparison of the qualifications, responsibilities and salaries of economists outside the public service with those inside provides significant support for your position.

The Commission, of course, recognizes that arbitration proceedings must be carried on in accordance with the provisions of the Public Service Staff Relations Act. Your letter does not mention that according to the Act, the Arbitration Tribunal shall consider "any other factor that to it appears relevant to the matter in dispute". Although the Commission did not have anyone in attendance at the oral presentations, we have examined the written arguments. In the Commission's opinion, the parties involved in this matter could have - and should have - given serious consideration to the need for all employee groups in the community to restrain their wage and salary demands in present economic circumstances.

If wage and salary increases of the magnitude obtained by these groups are to be the general rule, price inflation can only get worse. If they turn out to be the exception, while most other settlements fall increasingly into line with productivity improvement, these groups of highly-paid workers will have obtained a special advantage over other wage and salary earners. In either event, the increases obtained seem to the Commission impossible to justify for the groups you represent, and to be contrary to the best interests of Canadians generally.

In view of the fact that your letter to me was an open one, this letter is being made public.

Yours sincerely,

John H. Young,
Chairman.

(COPY)

THE PROFESSIONAL INSTITUTE OF THE PUBLIC SERVICE OF CANADA
L'INSTITUT PROFESSIONNEL DU SERVICE PUBLIC DU CANADA

786 Bronson Avenue·Ottawa 1, Canada/Telephone 613-237-6310

C.100
October 13, 1970.

Dr. J. H. Young,
Chairman,
Prices and Incomes Commission,
West Memorial Building,
Wellington Street,
Ottawa, Ontario.

Dear Dr. Young,

Your recent statement to the news media concerning the award of the Public Service Arbitration Tribunal in the matter of the Economists, Sociologists, Statisticians and Mathematicians employed in the federal public service will have been a further disappointment to those who still hope for fair, balanced and intellectually acceptable comments from the Prices and Incomes Commission.

The award was made by conscientious and experienced experts sitting as a tribunal in accordance with the Public Service Staff Relations Act. For some reason best known to yourself you omitted to point out that this Act requires the awards of the tribunal to be governed by specific criteria including "the conditions of employment in similar occupations outside the public service".

Mr. Justice Montpetit and his colleagues based their award on a hearing which occupied the better part of a week during the course of which representatives of both the Treasury Board and the Professional Institute participated fully. The statistical and other evidence submitted by both parties together constituted a massive collection of relevant information which the members of the tribunal studied for nearly two months before handing down the award. Nevertheless, in a matter of a few hours after the release of the findings and without the benefit of either supporting analysis or other technical justification, you saw fit to subject the findings to general and sweeping condemnation.

...

On the basis of your statements last Friday, it is difficult to escape the conclusion that you were recommending that professional public servants should be paid less than their peers in the outside sector of the economy and, furthermore, that they should work as long as their employer wishes in order to earn such subnormal salaries.

If this is, in fact, your view then one must have deep concern about the economic and other philosophies which are motivating the work of your Commission. Pending the satisfactory solution of this dilemma I am afraid that an ever increasing number of thinking and concerned citizens of this country will be reluctantly forced to accord to statements emanating from your Commission that degree of credibility customarily reserved for official propaganda.

I propose to release this letter to the news media as of mid-day today.

Yours sincerely,

L.W.C.S. Barnes,
Executive Director.

LWCSB:C

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Release at 10:30 p.m. EST

West Memorial Building,
344 Wellington Street,
O T T A W A

Telephone: 995-6357

Address delivered by
John H. Young,
Chairman,
Prices and Incomes Commission,
to a joint meeting of the
Retail Credit Grantors' Association and the
Canadian Credit Men's Association,
Tuesday, November 3, 1970.

Vancouver, B.C.

Those of us who are associated with the Prices and Incomes Commission are spending a good part of our time these days considering and discussing the nature of our program as we move into 1971. Anyone who is directly concerned with that set of questions can easily make the mistake of assuming that all the members of an audience such as this are thoroughly familiar with what the Commission has been doing for the last year and a half, and that you all understand exactly where we find ourselves today. This is unlikely to be the case, and many of you would probably welcome a brief review of the events which have led up to the present situation.

An obvious place to start is to ask why the government appointed a Prices and Incomes Commission in the first place. As in most government decisions there were, no doubt, a number of considerations which played a part, but certainly one notion received a good deal of emphasis in the White Paper which led up to the establishment of the Commission. This was the idea that while conventional monetary and fiscal policies could curb inflation, they might be able to do so only at a high cost in terms of unemployment. As pointed out in the White Paper on Policies for Price Stability:

"The conclusion drawn by the Government of Canada from our recent experience is that the present policy tools are not sufficient to resolve the very real conflict that exists at the present time between the objectives of maintaining high level employment and restoring the price stability that is necessary for sustained economic growth."

In short, what was being sought was not a way of stopping inflation. That could always be done by sufficient restriction of public and private expenditure. Rather what was needed was a way of stopping inflation with less unemployment than would otherwise be the case. Some critics have suggested that the word "employment" should be added to Prices and Incomes in the Commission's title in order to stress the importance which should be given to employment as well as price stability. The absence of the word "employment" from our title has not reduced its significance in our thinking. From the outset the central concern of the Commission has been to find ways of achieving price stability at a minimum cost in terms of unemployment and lost production. When we were

casting around for the theme of a pamphlet we issued some months ago, it became obvious to us that the clearest way of describing what we were trying to do was "Fight Inflation - Save Jobs".

What did this mean in practical terms when we began our work a year ago last July? At that time the outlook for price stability was anything but favorable. Prices had risen five percent in the previous 12 months, and wages and salaries were 7½ per cent above the level of a year earlier with further increases in prospect.

Many doubted whether governments had the power or the determination to control inflation.

We had no such doubts. It was apparent that the authorities both in Ottawa and in Washington had decided that inflation must be curbed. In the absence of other effective means of checking the rise in costs and prices, this clearly meant vigorous government measures to restrict public and private spending.

We had no doubt that if carried far enough and persisted in long enough these measures would bring inflation under control. We also had no doubt that if reliance were placed exclusively on measures to restrict spending, it was going to be difficult, if not impossible, to bring the present inflation under control without the risk of serious side-effects on the growth of production and employment.

We were convinced that a more direct method of reducing the size of price and income increases would lessen the difficulties of this period of adjustment. We therefore set about determining whether a way could be found for restraining prices and incomes without paying such a high price in terms of production and unemployment. Thus, in August the Commission announced that we were looking for a set of commitments from business, professional groups and labor unions that would then be backed up by governments. In essence, we proposed that businesses agree to forego some part of the short-run profits they could realize from price increases in return for some moderation in cost increases. Wage and salary earners would agree to accept less in pay increases in return for moderation of price increases.

These proposals were widely misinterpreted as a purely voluntary program and, not surprisingly, there was widespread skepticism that such an approach would work. In fact the Commission from the outset was pressing for a scheme that was voluntary only in a limited sense.

In discussing the proposal with representatives of the various groups concerned, we made clear at the time

that we were seeking a consensus not only on a set of criteria to limit increases in prices and in all major forms of income, but also on a set of measures for effective surveillance and review procedures. This meant that governments must be prepared to bring effective pressure to bear in order to deal with serious cases of non-compliance with criteria which enjoyed a broad measure of support from all groups in the community. To put it in terms often used by the Americans, when all the "jawboning" was finished, the Commission wanted an agreement with some teeth in it.

Indeed, the Commission's proposals went further than this. We realized that in many areas, such as rents and the prices of goods sold mainly on world markets, it was not feasible to obtain effective restraint commitments. In such cases, we recognized that governments would have to make use of their regulatory and fiscal powers to ensure that the program of restraint applied generally across the board.

When the Commission abandoned this broad approach last Autumn in the face of opposition from organized labor, the more piecemeal arrangement which we subsequently

proposed to the business community was again voluntary in a more limited sense than is generally recognized.

It is true that in February of this year at the National Conference on Price Stability we sought and obtained the broad agreement of those present on the principle that business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970 and ensure that any price increases were clearly less than needed to cover cost increases. In effect, many business firms would be expected to accept a squeeze on their profits during 1970 which was additional to that being imposed by the market.

At the same time, however, we indicated that if agreement could be reached at the conference, it would be submitted to the Heads of the federal and provincial governments for their approval and support. In other words, those present at the conference were asked to express a view on whether the co-operation of the business community as a whole could be expected for a set of arrangements of this kind, on the understanding that governments would be asked to use their powers to make these arrangements apply effectively to all business firms.

The fact that the price restraint program was voluntary only in this limited sense does not detract in any way from the support and understanding it has received from the business community as a whole. These arrangements were developed in close consultation with business leaders, and it was their support that initially made the conference possible and subsequently made the price restraint program the success which we feel it has been. Most firms have co-operated fully with the Commission in the conduct of price reviews designed to ensure that the criteria are being strictly observed.

What has been accomplished by the price restraint program? This is and will undoubtedly remain a matter on which opinions will differ. What we do know is that a number of factors have been at work, operating in the direction of discouraging price increases. These include the slack market conditions facing many industries, lower prices for farm products, the appreciation of the Canadian dollar and the Commission's program of price restraint.

Without attempting at this time to allocate the credit for the results achieved, it is worth emphasizing that the 12-month increase in the Consumer Price Index now is down to 2.8 per cent. As recently as the summer of 1969,

the index was running more than five per cent above the level of a year earlier. Indeed, the current year-over-year increase in the index is as small as has been recorded in Canada at any time in the last five years. The 2.8 per cent increase in consumer prices in Canada over the last 12 months is much lower than the comparable figure for the United States, which was 5.8 per cent at the latest reading, and is as low or lower than the comparable increase recorded for any major western industrialized country.

It is true that the recent improvement in Canada's price performance at the consumer level has been particularly noticeable in the case of food items, the price index for which is currently only 1.2 per cent higher than a year ago. The prices of foodstuffs are subject to a variety of short-run influences besides the state of the economy, including fluctuations in farm production and marketings. It is also true, however, that the Commission has maintained close surveillance and review of retail food margins through the co-operation of the major supermarket chains, and that competition has been keen in the pricing of foodstuffs at the retail level.

The price index for consumer items other than foods has risen 3.5 per cent over the last 12 months. In the summer of 1969, this index was running almost

five per cent above the level of a year earlier. One of many factors helping to slow the rise in prices of non-food items in the Consumer Price Index has been the reduced frequency and size of indirect tax increases during the last 12 months.

It does not seem to be recognized generally that the increase in the Consumer Price Index since February of this year has been at an annual rate considerably below even the 2.8 per cent rise over the last 12 months as a whole. Thus, if we can maintain anything like our recent price performance into the first half of next year, the 12-month increase in the index should be down in the two to 2½ per cent range within the next few months. This is close to the level which is regarded in this country as a working definition of reasonable price stability.

In short, the goal of the long and frustrating battle to control the present inflation is now in sight. We were approaching this objective three years ago, but did not attain it. It would be unfortunate indeed if we fail to achieve it once again through the lack of a final effort. What is needed now is a resolve by employers and employees alike to bring the rise in costs back into line with the requirements of reasonable price stability.

A new emphasis is needed in place of the stale recriminations and outworn attitudes of recent months. The best hope of economic betterment for all groups in the community must be seen to lie in making our economy more productive year by year, not in perpetuating the wage-price-profit spiral.

Will enough people see this soon enough to bring about the moderation of cost increases which is essential for sustained economic expansion? If not, either prices will begin to rise again at an unacceptable rate, or unemployment will remain high or get worse, or the government will have to impose mandatory wage and price controls, or some uncomfortable compromise will have to be reached among these unpleasant choices.

Surely we can do better than that. Nothing more is required than that we adapt our behavior realistically to the economic conditions which face us. A market economy such as we have in Canada cannot perform well if this kind of adaptation fails to occur or occurs only after too long a delay. For some time now profit margins have been narrowing, the rate of price increase has been declining and unemployment has been rising. In the past wage and salary increases have always moderated in response to such conditions. It is in the interests of all of us that this response be delayed no longer.

- - -

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release

November 16, 1970

West Memorial Building
344 Wellington Street
O T T A W A

Telephone: 995-6357

NEWS RELEASE

The Prices and Incomes Commission has carried out a study of revisions to air fares implemented by three of Canada's regional air carriers -- Eastern Provincial Airways (1963) Ltd., Nordair Ltd. and Quebecair.

On Aug. 30, 1970, Eastern Provincial increased fares on eight routes and reduced fares on three others. Family and group fares were changed and stop-over charges were introduced. These changes, which are expected to provide a small increase in revenue in 1970, were made principally to parallel recent Air Canada fare revisions.

Nordair Ltd. increased its normal economy fare between Montreal and Hamilton effective Aug. 5, 1970. In addition, certain other changes were made in stand-by and family rates between these points and stop-over charges were introduced. The changes will increase revenue by a small amount in 1970 and were made to conform with the fare structure of Air Canada and CP Air.

.../2

Effective Aug. 23, Quebecair increased three fares and reduced two fares, principally to be consistent with revised Air Canada rates. These revisions are not expected to increase revenue of Quebecair significantly.

The Prices and Incomes Commission undertook an investigation to determine whether the fare revisions by the three companies were within the price restraint criteria agreed to at the National Conference on Price Stability.

Revenue, cost and profit data covering several years were obtained from each of the companies, together with forecasts of results for 1970.

In all three cases the financial projections for 1970, including the effects of the recent fare revisions, reveal financial results which are clearly inadequate in relation to sales and investment.

It was therefore found that fare revisions by all three companies complied with the price restraint criteria.

- 30 -

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release

November 17, 1970.

West Memorial Building
344 Wellington Street
O T T A W A

Telephone: 995-6357

NEWS RELEASE

The Prices and Incomes Commission will undertake a review of price increases announced today by the Steel Company of Canada Ltd. (Stelco).

Stelco announced that, effective Nov. 18, it will increase the average price of bars and bar products by five per cent, flat-rolled products by 5.3 per cent, finishing-mill products by four per cent and tubular-mill products by 3.3 per cent.

The Commission conducted a fact-finding study of the steel industry and published a report on its findings earlier this year. It also reviewed and reported on increases in tin plate prices during the first half of the year.

- 30 -

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release

November 18, 1970.

West Memorial Building
344 Wellington Street
O T T A W A

Telephone: 995-6357

NEWS RELEASE

A price review will be conducted by the Prices and Incomes Commission into price increases announced today by Alcan Canada Products, a division of the Aluminum Co. of Canada Ltd.

Alcan Canada Products announced increases ranging up to four per cent for extruded aluminum products.

Earlier this year the Aluminum Co. of Canada, after consultations with the Commission, decided not to proceed with price increases for aluminum ingots and semi-fabricated products to its customers in Canada.

- 30 -

Canada.

Prices and incomes commission

Commission des prix et des revenus

December 1, 1970.

CONCLUDING STATEMENT

In a series of regional meetings with businessmen convened by the Prices and Incomes Commission in Halifax, Montreal, Toronto, Edmonton and Vancouver and in a meeting held today in Ottawa, the results of the 1970 price restraint program were reviewed.

It will be recalled that following the National Conference on Price Stability last February, business firms in Canada were called upon to reduce the number and size of the price increases they would normally make in 1970 and to ensure that price increases were clearly less than the amount needed to cover cost increases. It was emphasized at the time that if inflation were to be brought under control with a minimum of unemployment and lost output, a comparable measure of restraint would be required on the part of wage and salary earners, governments at all levels and indeed everyone.

... 2

The Commission acknowledged that the co-operation of the business community in restraining price increases during 1970 has been most helpful. It is clear from the Commission's price surveillance and review activities that many firms with opportunities open to them to raise prices during 1970 have deferred, limited or reduced the size of these increases in order to conform with the price restraint criteria.

In many other cases, the Commission's investigations show that firms have experienced a sharp rise in costs and a contraction of profit margins in 1970, and that such price increases as they have felt able to put into effect under existing market conditions were by no means large enough to cover more than a part of the increase in their costs since 1969. In still other cases, firms in various sectors of the economy, including agriculture, have been precluded by domestic and international market conditions from raising their prices at all, or have been forced to lower them.

The Commission drew attention to the fact that this was perhaps the first time that business firms representing practically every sector of the Canadian economy had been called upon and agreed to co-operate in a national program of this scope.

. . . 3

In the Commission's view, the price restraint program has not only had a direct moderating effect on the rate of price increase during 1970, but has also been useful in giving the public a clearer understanding of the crucial role of cost increases in perpetuating the inflationary process. On the other hand, the Commission conceded that as yet there was little evidence of a moderation of wage and salary increases, although it had not been expected that this would be quickly achieved.

The Commission pointed out that the economic prospects facing Canadians in 1971 made the need for responsible attitudes in price and income decisions no less important in the immediate future than in 1970. While some comfort can be taken from the recent moderation in the rate of price increase, the Commission must again warn Canadians that this is likely to be only a temporary phenomenon unless there is an early decline in the rate at which costs are rising. Without an early and substantial moderation of the size of wage and salary increases, and pricing policies which adequately reflect any moderation of cost increases, it is the Commission's view that the choices available to Canadians will be limited to renewed inflation, an unacceptable level of unemployment or compulsory measures of some kind to provide more effective control over costs and prices.

. . . 4

The business representatives present at the meeting drew attention to the marked changes which had occurred since February, 1970, in the market conditions faced by business firms, in the degree of slack in the economy, and in the general orientation of government policy toward stimulating higher levels of economic activity and employment. Under these conditions substantial price increases were effectively ruled out for most firms. The business view was that in these changed circumstances and without whole-hearted support and parallel action on the part of labor and government the continuation of formal price restraint criteria beyond the end of 1970 would no longer be warranted.

The business representatives made it clear, however, that they recognized the continuing need for responsible attitudes on the part of all elements in the community, including governments as well as private groups, with respect to price and income decisions. There was general agreement that the role of the Prices and Incomes Commission was a vital and useful one, that it should be encouraged to complete its work in the areas of research and public education, and that if possible it should develop policy suggestions aimed at avoiding a repetition of recent national experience with inflation.

... 5

Despite its earlier preference for a six-month extension of the existing criteria, the Commission has concluded that in 1971 it will not indicate whether or not price increases are justified on the basis of specific criteria. Similarly, the Commission will no longer assess pay increases against a specific guideline in the new year.

The Commission will, however, maintain its surveillance of increases in prices, wages and salaries, professional fees and other forms of income, and will continue to conduct investigations and issue reports in particular cases.

In instances where price increases occur, the Commission intends to undertake fact-finding studies in selected cases in order to establish and document the various factors which contributed to the price increase. The purpose of these studies will be to ascertain the circumstances and implications of particular price changes and to inform governments and the public accordingly. In obtaining the information necessary both for its surveillance program and for its fact-finding studies of price increases, the Commission expects to continue to receive the full co-operation of business firms.

. . . 6

The Commission will also conduct fact-finding studies of the circumstances and implications of individual pay settlements, and inform governments and the public of the relevant facts.

Construction is one of the sectors of the economy where costs have risen particularly rapidly during recent years. The Commission will continue to examine, in co-operation with employers, unions, governments and clients, the underlying reasons for these cost increases and the measures that can be taken by all concerned to bring about a moderation in them. The contribution to restraining cost increases that can be made by balancing out the flow of construction activity and by developing suitable steps to achieve this through advance planning and co-ordination of major projects was discussed.

Looking somewhat further ahead, the Commission remains convinced that there is an urgent need to find more effective and less costly ways than are now available for dealing with the threat of a recurrence of inflation. The Commission intends, therefore, to press ahead towards the completion of its program of research studies so that its findings and recommendations can be made public during the course of 1971.

- - -

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release

January 22, 1971

West Memorial Building
344 Wellington Street
O T T A W A

Telephone: 995-6357

NEWS RELEASE

On Dec. 14, 1970, the Prices and Incomes Commission made public a review into price increases of margarine, shortening and salad oils. The report reviewed the price increases of seven of the eight major Canadian producers of these products to determine whether they met the pricing criteria agreed to at the National Conference on Price Stability. The report did not review the price increases of one major Canadian producer, Kraft Foods Ltd., because that company had declined to provide the Commission with sufficient information to determine whether its price increases were consistent with the criteria.

Steps were taken to obtain the compliance of Kraft Foods Ltd. with the Commission's request for financial and other information. The company subsequently provided all of the information needed and it has been reviewed to determine whether it met the agreed pricing criteria. The review shows that the price increases implemented by Kraft in 1970 are within the criteria.

CANADA

Prices and incomes commission

Commission des prix et des revenus

For Release at 11:00 p.m. EST

West Memorial Building,
344 Wellington Street,
O T T A W A

Telephone: 995-6357

Address delivered by
John H. Young,
Chairman,
Prices and Incomes Commission,
to the
Vancouver Institute,
Saturday, January 30, 1971.

Vancouver, B.C.

Many of those who have been given leave by the University come to the Vancouver Institute when they get back to give a report on what they have learned in their period away. My leave is not finished and my colleagues and I on the Prices and Incomes Commission have by no means finished our work on the problems of inflation. It is not too early, however, to give a progress report on what we have been doing to date, and to draw some tentative conclusions about what we have learned. In particular I would like to offer some comments on the possible scope for an effective incomes policy in Canada, on the practical problems that must be overcome and on the potential gains that such a policy might hope to achieve.

Let me begin by reminding you of the economic circumstances in which the Commission began functioning, since the nature of the problem to which we have been addressing ourselves is best understood in the context of the economic events from which it emerged.

Ten years ago a number of us met in the Law School Building for a series of Saturday morning meetings to discuss the causes of the level of unemployment prevailing at that time. Those who were present included representatives from the University, the business community, the unions and the Government of the Province of British Columbia. The

University people who participated uniformly took the view that the situation could be remedied by expansionary economic policies, but even then we recognized that if the process were pushed too far, we would land back in the inflationary conditions of 1956-57 which were part of the background to the level of unemployment existing in 1960-61.

In 1961 the Canadian economy had begun to recover from the period of sluggish growth and relatively high unemployment which had prevailed since 1958. This recovery was destined to become the most prolonged period of unbroken expansion in our post-war history, extending right through to the end of the '60s. During the early years of the expansion substantial annual gains in output and employment were recorded without any marked change in the degree of price stability experienced since the late '50s - that is, an average rise in the price level of about 1½ per cent a year.

By 1965 the economic expansion had developed remarkable speed and momentum. The level of unemployment had been reduced to 3½ per cent, a lower figure than that for any year since 1956. At the same time, however, the hectic pace of expansion had begun to be accompanied by an accelerating rise in prices and costs.

The prospect that the country was rapidly heading toward a major outbreak of severe inflation posed a difficult dilemma for economic policy. Both the rise in costs and prices and the rise in output and employment were fuelled from the same source - namely, a very rapid rate of growth in public and private spending. If the upsurge in spending were allowed to proceed unchecked, the headlong pace of economic expansion might be maintained for a while longer - but there would be nothing to stop continued acceleration of the rise in prices and costs. If on the other hand the upsurge in spending were moderated through such measures as higher taxes and a tightening of credit, the developing inflation could be held in check - but not without adverse effects on the growth of production and employment, the severity of which was not entirely predictable.

Efforts were made over the next three years to steer a middle course between these two alternatives. The rise in prices had soon reached an annual rate of around 4½ per cent. The action taken to moderate the upsurge in public and private spending was strong enough to prevent the pace of inflation from going much higher than this, though not enough to reduce it significantly. The achievement

of even this limited objective, however, was accompanied by a rise in the unemployment rate to 4½ to five per cent and by a much slower increase in production.

By early 1969 three years had gone by with prices continuing to rise at an annual rate of four per cent and more. This prolonged experience of rapidly rising prices had increasingly pervasive effects on public attitudes and expectations. The prospect that severe inflation would continue indefinitely or grow even worse was regarded by the public with increasing fatalism and resentment. For several years in the past, prices had risen at an average rate of only 1½ per cent a year. Since prices were now being allowed to rise at an annual rate of around 4½ per cent, was there not every reason to expect that an even higher rate of inflation would be permitted next year or the year after? The spread of these expectations of steadily worsening inflation was apparent in the relentless rise in interest rates, the strong upsurge of real estate values, the progressive escalation of wage and salary demands - indeed, in almost every area of our economic life.

It was against this background, and under intense public pressure for more effective action to check the rise in prices, that the authorities in Canada introduced strong

measures in late 1968 and early 1969 to bring the inflation firmly under control. Similar measures had been introduced in the United States. When the Commission arrived on the scene in mid-1969 these measures were only beginning to take hold and had not as yet had many visible effects. Indeed the rise in the price level in Canada over the previous 12 months had by then reached five per cent. In the Commission's view the decision to bring the inflation firmly under control was the only responsible course of action in the circumstances. It was also clear, however, that the measures available at the time for achieving this objective could well have adverse and undesired side effects on jobs and output during the transitional period in which inflation was being squeezed out of the economy.

The central question facing the Commission when it was established, therefore, was whether some form of incomes policy could be devised and given practical application in Canada to help control inflation at less cost in terms of lost output and lost jobs.

Now what exactly is meant by an incomes policy? What does an attempt to moderate increases in incomes have to do with the effort to moderate rising prices? How is it supposed to help in the control of inflation, and what problems does it raise?

Perhaps the first point to make is that, for any given rate of productivity change, price increases cannot be reduced unless income increases are also reduced. The price realized from the sale of a product or service is, after all, the source of the incomes received by those who jointly produce and market it. Thus if the price of a product is to rise less rapidly, somebody's money income will also have to rise less rapidly - either that of the employees, that of the management, stockholders and bond-holders, or the incomes of all the groups involved.

It is also true that smaller increases in average money incomes need not leave anyone worse off than before in any real sense so long as they are matched by correspondingly smaller increases in the price level. Thus a six-per-cent increase in annual pay when the cost of living is rising by only three per cent a year should be worth every bit as much to an employee as an eight-per-cent pay raise would be if prices were rising by five per cent a year.

Now if the size of price and income increases responded at all quickly and sensitively to restraints on expenditure such as tax increases and a tightening of credit, there is no reason why their moderation should involve severe or prolonged effects on the growth of production and employment. The fact of the matter is, however, that in a country like Canada decisions to raise

prices and rates of pay are made by innumerable private groups and public bodies. Most of these are insulated in varying degrees from the immediate pressure of changing economic conditions and are strongly influenced by the views they hold regarding the adequacy of their rate of return or the fairness of their share of income.

Thus, long after the authorities have acted to reduce spending pressures in the economy, jockeying for larger income shares is likely to continue to push up costs and prices to levels well beyond those which market demand can support. The resulting sluggishness of sales, output and employment then leads to demands that the attempt to control inflation be abandoned as cruel and misguided.

Could some effective form of direct pressure be devised to help moderate the size of price and cost increases? If so, inflation could be checked with less reliance on expenditure restraints, which hold the risk of economic disruption and higher unemployment. And to the extent that price and cost increases could be moderated with greater speed and certainty, the authorities could act to stimulate renewed expansion of the economy more promptly and with greater confidence of avoiding a recurrence of inflation.

That is the hope which encouraged the Commission in its search for some practical and effective form of incomes policy in Canada over the last 18 months. It is also the hope that has encouraged similar efforts in many other countries in recent years.

I do not intend to bore you today with a blow-by-blow account of the Commission's efforts to date. There are, however, a few general observations arising out of our experience so far which may be of interest.

The first requirement for an effective incomes policy is that its central objective should be widely understood and accepted throughout the community. In a country whose last experience with an incomes policy dates back to the mandatory price and income controls of the Second World War, it is not surprising that we encountered a great deal of misunderstanding about what we were trying to achieve. To the business community, interference with the pricing decisions of management looks suspiciously like a politically-inspired raid on company profits. To professional groups, interference with their fee-setting activities raises the clear possibility that professional standards of service are about to be undermined by ignorant laymen. To organized labor, proposals that the settlement of wage and salary demands through collective bargaining conform with certain

broad guidelines suggests an anti-union bias. And to some economists, any concern whatever about controlling inflation is simply an irrational phobia which stands in the way of the all-out stimulation of economic activity and employment.

Nevertheless, I think the Commission has made some progress over the last 18 months in getting people to see that the country has alternatives available to it other than just a simple choice between a high rate of inflation or a high level of unemployment.

Beyond the problem of obtaining broad public support for the objectives of an incomes policy lie additional problems of great complexity. Standards of behavior have to be spelled out as clearly as possible so that those involved in the determination of prices and rates of remuneration know what limits they are expected to observe. These standards must do as little violence as possible to economic realities, to the public's sense of what is fair and equitable, and to established institutional procedures for determining prices and incomes.

Other important issues arise in deciding what forms of pressure, in addition to persuasion, should be invoked in order to obtain general compliance with the norms of an incomes policy. Many people were critical of the approach

followed by the Commission last year on the grounds that it was naive to expect that voluntary restraints would be observed. This is a mis-reading of what the Commission had in mind. We sought to obtain broad agreement on the part of those most directly affected not only on what standards of restraint should apply, but also on the need for effective surveillance and review procedures to determine whether these standards were being observed in practice. Indeed, we also sought acceptance of the need for governments to bring pressure to bear in order to deal with serious cases of non-compliance.

At the National Conference on Price Stability last February, the Commission was able to obtain broad agreement on these matters so far as the 1970 price restraint program was concerned. Our subsequent experience with this program convinced us that it was possible to operate a rather informal price restraint program in this country on a reasonably effective basis. On the other hand, not much could be achieved in restraining increases in wages, salaries, rents or other forms of income without adequate recognition of the need for such restraint on the part of those affected and without the strong support of governments to encourage compliance.

The kinds of pressure which have been suggested or tried in order to make an incomes policy effective range all the way from lectures to unfavorable publicity, to tax deterrents, fines or other forms of legal compulsion directed at those who refuse to comply. It is not surprising that mandatory controls should be regarded as a distasteful last resort in free societies, to be considered only when all avenues of persuasion and appeals for voluntary co-operation have been exhausted. But however voluntary or mandatory, any incomes policy which aims at exerting some degree of direct control over price and income decisions must find solutions for a number of difficult problems.

For example, if the norms of an incomes policy are to be readily understood, they must be put in very simple terms which are bound to appear rather crude when viewed against the complexities of economic reality. A possible solution to this problem might be to permit those administering the program considerable flexibility in the detailed application of these norms to particular situations, although there would, of course, be strong objection to allowing too much latitude for administrative discretion.

It has also been suggested that these norms should be applied on a selective basis to the more strategic prices and pay structures in the economy rather than across

the board. While such an approach has the obvious attraction of administrative simplicity, it raises awkward questions both of economics and of equity. It is by no means certain that pace-setting price and income increases only originate in the activities of large firms and large employee groups. Moreover, those who are selected for control may not regard administrative convenience as an adequate excuse for exempting the rest of the community from similar obligations.

A major source of difficulty arises from the fact that particular price and income levels are adjusted from time to time as part of an on-going process. An incomes policy must necessarily intervene in this process at a particular point in time, when certain prices and incomes are bound to be lagging temporarily and others are temporarily ahead of the game. Should these discrepancies be accepted as over and done with, or should an effort be made to sort them out in applying the newly established norms of incomes policy? A related question is whether the general design of the policy should aim merely at freezing the existing pattern of income distribution for a limited period, or whether it should aim deliberately at effecting certain changes which are regarded as socially desirable.

Let me conclude with a word about where things stand at present in the effort to achieve satisfactory levels of economic activity and employment in Canada with reasonably stable prices.

We have had a remarkable improvement in our price performance during the course of 1970. Over the 12 months ending in December, the index of consumer prices rose by only 1.5 per cent. Even if food prices, which have been subject to a number of special influences, are excluded from the index, the 12-month increase was 3.3 per cent - the smallest such increase since 1966.

Much of the progress made during the last year in curbing the rise in prices in Canada has involved a decline in business profit margins and in farm incomes which cannot be expected to continue indefinitely. Thus, if the progress achieved to date in checking inflation in Canada is to be consolidated during 1971, an early and substantial moderation of increases in wages, salaries and other costs remains as essential as ever.

The much slower rate of price increase of recent months has, however, permitted greatly increased emphasis on measures to stimulate economic activity and expand employment opportunities. In retrospect, the extent to which

production lagged and unemployment increased during 1970 provides the strongest argument for believing that we have not seen the end of the effort to make an incomes policy work in Canada - only the beginning.

- - -

Prices and incomes commission

Commission des prix et des revenus

For Immediate Release

March 17, 1971

West Memorial Building
344 Wellington Street
OTTAWA, Canada
K1N 8V2

Telephone: 995-6357

NEWS RELEASE

The Prices and Incomes Commission announced today that it will examine all factors leading to a settlement signed yesterday by members of the London Sheet Metal Contractors Association and Local 473 of the Sheet Metal Workers' International Association.

This settlement has caused particular concern since it comes at a time when plans for province-wide bargaining in Ontario are being developed by contractors and unions in the various sectors of the construction industry, and when the need for a determined effort to check cost increases in this industry is becoming more widely recognized.

The examination will cover, in addition to the background and terms of the settlement, its potential impact on costs, incomes and employment in the construction industry and in the economy.

The Commission has discussed this development in the London area with the Ontario Department of Labor and has been assured of the full support of the Government of Ontario in the examination.

In recent weeks the economic policies followed in Canada over the last two years have been severely criticized. The substance of the criticism is that "an obsession with inflation" has led to a sluggish economy and the present high level of unemployment.

A short while ago, I asked one of the most severe critics of recent economic policy what he would have done had he been made responsible for the management of the Canadian economy in 1968. He replied that he would prefer to be allowed to take charge at an earlier date since developments prior to 1968 had ruled out the possibility of a good outcome.

What he recognized was that once an economy becomes engulfed by a severe and sustained inflation, those responsible for economic policy no longer have any good choices. The experience of the last two years has proved once again that there is no easy way to make the transition from inflation to reasonable price stability.

When the United States and Canadian Governments faced up to the unmistakable existence of an entrenched and pervasive inflation in late 1968, the economic policy choices available posed a grim dilemma. The first choice was to let the economic expansion of the last seven or eight years flow on uninterrupted, reap such short-run benefits of extra production and additional employment as could be squeezed out and ignore the probability that the already rapid rise in costs and prices would simply pick up further speed and momentum.

The second choice was to accept the continuation for an indefinite period of a rate of price increase in the existing range of four to five per cent, and apply only enough restraint on demand to avoid further escalation.

The third choice was to administer a stiff dose of restrictive budgetary and credit restraints and wait until a changed and much less buoyant set of market conditions brought about the necessary moderation of cost and price increases.

A fourth and more innovative choice was to employ fiscal and monetary restraints but at the same time attempt to supplement this with some form of direct intervention to bring about a more direct moderation of price and cost increases with less unemployment and loss of output.

In both the United States and Canada the first two choices were rejected. It was recognized that a further acceleration of price and cost increases would only result in the need for even more drastic action in the very near future. It was also recognized that little would be gained by accepting as permanent the substantial rate of price and cost increases which had recently emerged. There were increasing signs that people everywhere were adjusting their expectations to a continuing high rate of price increases and that even to prevent further acceleration would require a measure of economic slack. To accept a major ratcheting up of the average rate of increase in costs and prices in Canada as a permanent feature of economic activity would be a dangerously short-sighted course of action and would simply lead the public to anticipate further upward adjustments whenever the situation got out of hand in the future.

The consequences of treating inflation as a harmless bogey can be seen in a number of other countries in the western world. One inflationary episode is followed, after a short breathing space, by yet another of even greater intensity. The result is a progressive slide into higher and higher rates of increase in costs and prices, a process which is inherently futile and self-defeating. It is by no means clear that countries which have taken this route have thereby achieved a significantly better record of economic growth or employment levels over the last decade than countries which have resisted inflation more strongly and with greater success. What they have more likely achieved has

been to undermine the confidence of their citizens in the stability of the national currency and to provide strong grounds for social unrest.

For these reasons, both governments took the view that they had no other choice but to act decisively to bring the inflation under control, and accordingly they applied restrictive budgetary and credit policies. Here a difference did emerge. The United States' administration was strongly of the view that any form of direct intervention in the process of price and income determination should be avoided.

This was not the view of the Canadian Government. The Prices and Incomes Commission was appointed in mid-1969, and when it launched an initiative to supplement existing demand restraint policies by means of a concerted program of direct intervention in price and income determination, it received strong support from the Canadian authorities.

In short, it was recognized in this country that if a more direct way could be found to bring about a downward adjustment in the size of price and income increases, it would be possible to curb the inflation with less unemployment and loss of output.

The essence of the proposal we put forward to representatives of business, professional and union groups and senior officials of governments 18 months ago was that businesses would agree to forego some of the short-run profits they could realize from price increases in return for some moderation in cost increases. Wage and salary earners would

agree to accept smaller pay increases in return for a moderation in the rate of price increases. To the extent that price and cost increases could be moderated with more speed and certainty, the economy could be allowed to resume a more normal rate of growth earlier and with more assurance that a new burst of inflation would not occur.

While I do not wish to dwell upon the history of these early efforts, there are one or two observations which are worth making.

First, the proposals we put forward were widely misinterpreted as a purely voluntary scheme and there was considerable doubt expressed that "voluntarism" in economic matters had a place in Canadian life. In fact, the proposal was voluntary only in a limited sense. While we sought an arrangement based upon the full co-operation and understanding of the groups principally involved, we sought also a consensus on the need for effective surveillance and review procedures. In other words, governments would have to be prepared to deal effectively with serious cases of non-compliance with criteria which enjoyed a broad measure of support from all groups in the community.

Indeed, the Commission's proposals went beyond this. It was recognized that in many areas, such as rents and the prices of goods sold mainly on world markets, effective restraint commitments were not feasible. In such cases, governments would have to use their regulatory and fiscal powers to ensure that the arrangements applied broadly and equitably across the board.

Following the rejection by organized labor of this more comprehensive scheme, we fell back upon a more piecemeal arrangement which again was "voluntary" only in a limited sense. At the National Conference on Price Stability held just over a year ago, we sought and obtained the broad agreement of those present on a price restraint program for 1970. At the same time we made it clear that any agreement on a set of criteria governing price increases would be submitted to the Heads of the Federal and Provincial Governments who would be asked to use their powers to make the arrangements apply effectively to all business firms.

The fact that the price restraint program was backed up by more than just voluntary co-operation should not cloud, in any sense, the contribution of the business community towards price stability in 1970. It was the support and co-operation of the business leaders that made the conference possible, and subsequently made the price restraint program the success we feel it was.

Second, it is important to understand that what we were undertaking would not eliminate the need for a substantial dampening of the growth of public and private spending. There was never any question that the situation required a measure of fiscal and monetary restraint - for not even mandatory controls can succeed in an environment of excess demand. The intent of a program of direct inter-vention to scale down the rate of price and income increases

is to supplement fiscal and monetary measures and to mitigate their adverse side-effects, by making it possible to apply them less severely and for a shorter period.

Third, the question of timing was crucial. Even if a comprehensive scheme to moderate the size of price and income increases could have been put into effect at the beginning of 1970, its beneficial effects would not have been apparent immediately. The restrictive budgetary and credit policies applied by the authorities in the first half of 1969 were slowly taking hold, and their dampening effects on production and employment would become evident in the months that lay ahead. It was economic conditions during the subsequent fall and winter, the period we now are going through, that would be materially affected by how Canadians chose to fight this inflation.

It was and remains our view that when this initiative was being explored there was still time to bring inflation under control faster and with a smaller loss of output and employment than eventually occurred. If all groups in the economy had been willing to participate in a program to scale down increases in prices and incomes, it would have permitted the authorities to shift from restrictive to expansionary policies sooner and more decisively. There is no doubt that this would have had a beneficial effect on the employment situation now, well over a year later.

As you know, the efforts of the Prices and Incomes Commission were rewarded with only partial success in 1970. The series of discussions we held in the last

half of 1969 culminated in the National Conference on Price Stability and the 1970 price restraint program. At a meeting last December with representatives of the business community, it was decided that this program and the associated wage and salary guideline would terminate at the end of the year.

Both the Closing Statement of the National Conference on Price Stability a year ago and the statement issued following our December 1 meeting, recognized the special problems of the construction industry, where the rise in costs and prices has been particularly acute in recent years. It has always been apparent to the Commission that the nature of your industry and the way your prices, wages and profits are determined pose unusually difficult problems in coping with inflation.

Public concern about the industry has been focused mainly on the rapid rise in wage rates. It is certainly true that construction wage rates have risen considerably faster than those of most other groups of workers. It is also true, however, that rapidly rising land values, increased financing charges and, to a lesser extent, increases in the prices of building materials, have made a substantial contribution to the rapid rate of increase in construction costs over the last few years.

Much attention has also been given to the problems caused by the uneven flow of construction activity from year to year and from season to season. It has long

been recognized that a balancing out of the level of construction, advance planning and co-ordination of major projects could make an important contribution to restoring an element of cost stability in the industry.

The federal and provincial governments now are actively exploring the possibility of assembling more complete information on major planned construction projects on an area basis. This is a first step towards bringing about a more balanced volume of construction activity and, thus, a more stable basis for expectations concerning employment and income.

In the past the lack of a reasonably continuous flow of construction activities has brought about situations in which both contractors and workers were able - to put it plainly - to make the most of what was at hand. Much of the impact of boom conditions in construction gets built into permanently higher wage rates and other costs. This in itself has serious consequences for the industry.

Besides, these higher rates have wider repercussions. They generate elsewhere in the economy higher expectations than can be met or than productivity performance can justify. Thus a determined effort to bring about a more balanced flow of construction activity must form an essential part of an over-all effort to stabilize costs in the industry and throughout the economy.

The problems facing the construction industry are not confined to Canada. In the United States, the rapid rate of cost increases and the growing number of labor disputes and work stoppages have led many to call for the selective application of mandatory controls on prices, profits and costs in the industry. As you are aware, the American administration has been urging a council of employers and unions to come together and work out a meaningful approach to bring costs under control. When this was not initially achieved, the administration proceeded to suspend the Davis-Bacon Act, governing wage rates on federal government construction projects. More recently, however, joint negotiations between the contractors' association and the building trades unions have yielded agreement on a number of measures for moderating the rise in costs in the industry.

Because of the special problems facing the industry in Canada, the Commission welcomed an invitation last spring to meet employers and unions in the plumbing and pipe-fitting sector of the industry. Since that request, my colleague George Haythorne has participated in a series of meetings with employers and unions. As a result, major problems confronting the industry have been identified and a variety of steps to cope with them have been discussed.

We should make no mistake about recognizing the difficulty of the problem of reconciling high employment with that degree of price stability which will enable high employment to be sustained. One has only to open a newspaper to see how much difficulty other countries are having in accomplishing the same task.

What we must do if Canada is to regain and keep its economic health is to find ways in which those who have jobs or command wealth are brought to accept more moderate increases in our money incomes than we have become used to in the recent years of rapid inflation.

- - -

Prices and incomes commission

Commission des prix et des revenus

For Release at 4:00 p.m. EST

West Memorial Building,
344 Wellington Street,
Ottawa, Canada
K1N 8V2

Telephone 995-6357

Address delivered by
John H. Young,
Chairman,
Prices and Incomes Commission,
to the
Vancouver Kiwanis Club,
Thursday, April 1, 1971.

Vancouver, B.C.

A few weeks ago the Nobel Prizewinner, Mr. Paul Samuelson, suggested that the next Nobel Prize should be awarded to the person who solved the problem of how to run an economy at high levels of employment without generating strong upward pressures on costs and prices. In the heat of the debate in Canada these days about how to deal with the twin evils of unemployment and inflation, there is some perspective to be gained in recognizing that the economic policy issues involved are of major and continuing concern throughout the world, and that no simple solution to the problem is yet in sight.

It was only a generation ago that the governments of western countries developed and began to apply the techniques of fiscal and monetary management which would enable them to stimulate economic activity to high levels. It was widely predicted at the time that this would bring with it substantial dangers of inflation, and events have borne out this forecast. Country after country has found that unemployment can be progressively reduced by following sufficiently expansionary policies, but that at some stage in the course of doing so cost and price increases become substantially larger.

It is this phenomenon which poses an acute and so far unresolved dilemma for economic policy. No one wants to slow down or reverse the expansion of economic

activity and job opportunities while there are still significant numbers of people who cannot find work. On the other hand, simply to press ahead with expansionary policies in such circumstances runs the risk of making the inflation increasingly severe and, before long, unacceptable. In practice, the best that governments confronted by this dilemma have been able to do is steer a rather uneasy course between these two extremes. At the same time they have launched an urgent search for new policy approaches which would help keep costs and prices under control at high levels of employment.

There is something within all of us that wants to believe in the existence of simple solutions for complex problems.

There is a widely-held view, for example, that if only those responsible for economic policy were prepared to accept a somewhat higher average rate of inflation than in the past - say four to five per cent a year rather than one to two per cent a year - we could thereby maintain significantly higher average levels of employment.

If the matter were as simple as that, if there were in fact a clear-cut choice between maintaining higher levels of employment by accepting a certain amount of inflation or lower levels of employment in order to have reasonably stable prices, most people would probably choose the former.

But do we really have a clear-cut choice of this kind?

It is true that in the initial stages of a developing inflation some extra production and employment can be squeezed out of the economy for a time. The problem is that the size of these gains, and the length of time they can be sustained, depend crucially on how long it takes for people's expectations to respond to the more rapid rise of prices.

As people begin to catch on to what is happening to prices and adjust their expectations and income demands accordingly, it is difficult to see how the initial gains in employment and output can be maintained simply by allowing prices to continue to rise at the new higher rate. Indeed, there is good reason to believe that they can be maintained only so long as the rise in prices becomes even faster and keeps ahead of what people expect to happen. Few would deny that before long such an economic strategy would have to be abandoned as unacceptable.

There are related complications, of course. The government could scarcely deny that it had abandoned its previous goal of reasonable price stability in favor of substantially rising prices. But this would put everyone on notice about what to expect by way of future inflation

in charging for their own services. The government would also have a clear responsibility for compensating those who were not in a position to protect their incomes or savings against the rapid increase of prices. The result would be to eliminate many of the inequities involved in adjusting to a substantial rate of inflation, but only by making the adjustment so rapid and complete as to erase quickly any initial gains in output or employment.

Indeed, there is yet a further complication. Would people believe that a decision to accept an average rate of price increase of four to five per cent a year, rather than reasonably stable prices, was the end of the matter? Might they not conclude that they were witnessing merely the first stage of a gradual upward ratcheting of the average size of price increases over time, and take protective action against <u>that</u> possibility? Such an over-adjustment to rising inflation could well mean ending up with lower levels of output and employment than those prevailing at the start of the process.

Let me assure you that these are not merely theoretical possibilities. In late 1968, after three years of strongly rising prices, the evidence was indisputable in both Canada and the United States of a rapid and wide-spread adjustment of people's expectations and behavior

to the fear of further serious inflation. These expectations were reflected in the steep climb of interest rates, the increasing size of wage and salary demands and settlements, the upsurge in real estate values - indeed in virtually every area of economic activity. A renewed upward drift in unemployment and a slower growth of output provided a clear indication that whatever short-term benefits we had initially derived from tolerating inflation were rapidly disappearing.

In these circumstances there was no obvious way of stabilizing the existing high rate of increase in costs and prices, let alone reducing it significantly, without taking restraining fiscal and monetary action to reduce the pressure of demand in markets for goods, services and labor. The object of these measures, which included slowing the rise in government spending and limiting the availability of credit, was to bring about the necessary downward adjustments in the average size of price and cost increases through a change in underlying market conditions.

There is wide-spread misunderstanding of the way in which such measures operate to bring an inflationary situation under control. Many seem to believe that rising

interest rates, rising tax rates and indeed the decline in output and productivity which normally accompany these policies, are themselves inflationary. The argument is that higher interest and tax rates increase business costs, thus making higher prices necessary. Shelter costs increase through higher mortgage interest and the completion of fewer new housing units. To the extent that output levels out or declines through action of this kind, productivity growth is curtailed and this puts additional upward pressure on costs and prices.

There is no doubt about the cost-increasing consequences of these policies. But the point is that this is not their dominant aspect. While they contribute to rising costs on the one side, they dampen the demand for output, labor and finance on the other side to such an extent that the net effect is to diminish price and cost increases as slack develops in these various markets. As demand falls business firms find it more difficult to increase, or indeed even to maintain, price levels. Less buoyant sales and falling profit margins lead to cost-cutting measures and to cutbacks on hiring and expansion. Production slow-downs, weaker demand for labor and rising unemployment make it more difficult for wage and salary earners to extract such large income increases.

Eventually, perhaps after a prolonged period, the spiralling process of cost and price increases is brought under control.

There is a good deal of evidence in the history of many countries which shows that inflationary situations can be brought under control through budgetary and monetary restraint. How extended the period of restraint has to be, and for how long the accompanying losses of output and higher unemployment have to be endured, depends upon how quickly the size of price and income increases moderates in response to the dampening of market demand for goods and labor. The slower the response, the greater the loss of production and jobs during the period in which inflation is being brought under control.

Given the entrenched expectations of continuing, severe inflation that were so widely held only a year or two ago, some more direct means of bringing about an early and substantial moderation of price and cost increases was urgently required. The proposals put forward by the Prices and Incomes Commission in 1969 and 1970 to involve all groups in the community in a joint effort to scale down price and income increases directly were intended to permit the authorities to shift sooner and more

decisively toward expansionary budgetary and financial policies. Had this been possible, there is little doubt that economic activity would have been higher this winter, and unemployment lower.

What are the economic prospects that face us as we look ahead? It should first be acknowledged that efforts to check the rise in prices have made remarkable progress. Over the 12 months ending in February, consumer prices rose only 1.7 per cent, the third successive month in which the year-to-year increase has been under two per cent - a rate that has come to be regarded in this country as reflecting reasonable price stability. Only a year ago, in February, 1970, the rise in consumer prices over the previous 12 months had been no less than five per cent.

There are, however, a number of qualifications which we would do well to bear in mind in assessing Canada's recent price performance. The first is that if the decline in food prices - which has been the result of a number of special influences - is excluded, the annual rate of price increase for other consumer items has been closer to 3½ per cent. The second is that much of the progress on the price front has been made possible by a severe contraction in business profit margins and in farm incomes. Neither of these can be regarded as permanent.

Finally, it must be recognized that the rise in the exchange value of the Canadian dollar in recent months has also played an important role in restraining price increases.

The existence of these special factors does not change the fact, however, that the prices paid by the typical consumer household in Canada have recently been much more stable than they have been for many years. It is all the more disappointing, therefore, that there has been so little evidence as yet of a corresponding moderation of increases in salaries, professional incomes and wages.

I want to make it abundantly clear, as the Commission has tried to do all along, that the need to curb excessive increases in money incomes in this country applies every bit as much - if not more - to the relatively well-paid executive, managerial, professional and technical groups as it does to the wage-earner who happens to belong to a union. In recent months I have had occasion to make this point with reference to two professional groups about the size of whose recent income gains I have some direct knowledge, namely university professors and public service economists.

In arguing the need for an early and substantial moderation of the size of wage and salary increases, the Commission has never meant to imply that some special degree of responsibility for our inflation problems rests with the wage-earner in general or organized labor in particular. On the other hand, wages and salaries account for more than 70 per cent of net national income. Thus it should be readily apparent that there is no way in which wages and salaries can be exempted from the need for a moderation of income increases generally if the degree of price stability achieved in recent months is to be consolidated in the months ahead.

It is important to understand why this is the case. For any given rate of productivity improvement price increases cannot be reduced without a corresponding reduction in income increases. The price of a good or service is, after all, the source of the incomes received by those who participate in its production and sale. Therefore, if prices are to rise less rapidly, someone's income will have to rise less rapidly as well - that of employees, management, the self-employed, farmers, shareholders, property owners, investors, or the incomes of all these groups at the same time.

Over the long term, if we are to achieve and maintain reasonable price stability, the average size of pay increases cannot greatly exceed the average increase in production per person employed. The latter is after all the only source of improvement in average economic well-being. In Canada, with substantial yearly fluctuations and substantial differences among industries, output increases per person employed average about 2½ per cent per year. If pay increases are greatly above this, the difference must be offset by a progressive reduction in other income shares or by a corresponding general rise in prices. In the immediate future there would seem to be little scope for a further contraction of the share of profit-type income, which is currently as small as at any time in the post-war period, without seriously affecting the willingness of business firms to invest in renewed expansion. What average level of pay increase, therefore, is compatible with continued price stability under present circumstances?

This should not be difficult to see. If productivity increases each year by around 2½ per cent on average, if the current rate of price increase of under two per cent a year is to be maintained, and if there is to be any relief at all from the current squeeze on farm incomes and profits, it is difficult to imagine how wages

and salaries can increase at an average rate much in excess of four to five per cent. This need not, however, leave wage and salary earners on average worse off in any real sense than they would be otherwise. The real value of any given increase in pay is governed by the rate at which prices are increasing. Hence a five-per-cent annual pay increase when prices are rising by two per cent a year is worth just as much as an eight-per-cent increase when prices are rising at a five-per-cent annual rate.

I began my remarks today by suggesting that no easy way had yet been found of dealing with the cost and price problems which are likely to be encountered in trying to operate an economy at high employment levels, and that these constitute the main obstacle to sustained economic expansion. I am very much aware that the tiresome reiteration of the need for restraint by people in positions of public responsibility is often interpreted as evidence of some curious puritanical aversion to the enjoyment of economic expansion.

The truth is more prosaic. Responsibility makes even the most passionate advocate of expansionary policies aware that their successful application for any length of time depends crucially on the behavior of costs and prices.

- - -

23 March 1971

NOTES FOR A STATEMENT BY MR. JOHN H. YOUNG, CHAIRMAN OF THE PRICES AND INCOMES COMMISSION, TO THE HOUSE COMMITTEE ON HEALTH, WELFARE AND SOCIAL AFFAIRS REGARDING THE MAIN ESTIMATES OF THE PRICES AND INCOMES COMMISSION FOR FISCAL YEAR 1971-72

Mr. Chairman:

Your committee has before it today the main estimates for the Prices and Incomes Commission for fiscal year 1971-72. These Estimates show a financial requirement for the Commission for this year of $1.976 million

It should be noted that these Estimates have been prepared on the assumption that the Commission will conclude its work on the date set out on its Order-in-Council, namely Dec. 31, 1971. Therefore, the amount being requested does not cover an entire fiscal year.

In view of the fact that Supplementary Estimates "C" has recently been tabled in the House of Commons showing an additional requirement for fiscal year 1970-71, it might be useful if I reviewed briefly the financial requirements of the Commission since its inception in the spring of 1969.

As was mentioned to the committee last Spring when the Main Estimates of the Commission of 1970-71 were before it, the initial financing of the Commission for fiscal year 1969-70, was provided through Treasury Board

Vote 5 (Contingencies) with Parliament later approving this action in the normal manner through the voting of Supplementary Estimates in December, 1969.

Since Departmental Program Forecasts for fiscal year 1970-71, on which Estimates for that year were based, were submitted to the Treasury Board prior to the establishment of the Commission, an arbitrary figure of $1 million for the Commission for fiscal year 1970-71 was set during August, 1969, on the understanding that the preparation of Main Estimates for 1970-71, would be governed by the development of the Commission's program.

At the time of the preparation of Main Estimates for 1970-71, during the fall of 1969, there were several uncertainties. In the first place, the total scope and size of the Commission's research program had not been determined. Secondly, it was not clear as to whether there would be a price review program during 1970. In fact, the holding of the National Conference on Price Stability was not announced until Jan. 20, 1970.

For these reasons, the Treasury Board decided that for the purpose of preparing the Main Estimates for 1970-71, the figure of $1 million which had been set during the summer of 1969 should be used, on the understanding that when the situation was clearer, the Commission would present to the Treasury Board its total financial requirements for fiscal year 1970-71 for the program then in place.

This fact was communicated to this Committee on April 9, and May 5, 1970.

As a result of the National Conference on Price Stability and the Federal/Provincial Conference of First Ministers, both of which were held in February, 1970, the Commission proceeded to organize the price restraint program. During the spring of 1970, the Commission formulated its total financial requirements for 1970-71, including the administration of the price restraint program, the related communications program, and the total research program.

Last spring the Treasury Board approved a total budget for the Prices and Incomes Commission for fiscal year 1970-71 of $2.85 million, an increase of $1.85 million more than that already approved by Parliament. This addition would, of course, have to be submitted to Parliament in the form of Supplementary Estimates. While this sum did not include provision for the wage and salary review work of the Commission resulting from the wage and salary guideline proposals subsequently put forward at the Federal/Provincial Conference of Ministers of Finance and Provincial Treasurers on June 5, 1970, the Commission took certain management decisions on the allocation of financial and staff resources which has permitted this activity to be financed from within the approved budget level.

With the passage of time since the Treasury Board approval referred to, the Commission has found that it can operate its program within a budget figure of $2.25 million, an increase of $1.25 million. While this amount has not yet been approved by Parliament, it is a closer reflection of the actual situation. The House Committee on Miscellaneous Estimates has already discussed the Commission's 1970-71 requirements.

Before I conclude, Mr. Chairman, I would like to make a few remarks about the work of the Commission in 1971.

The progress made by Canada in checking inflation in 1970 has affected somewhat the role of the Prices and Incomes Commission. In 1971, the Commission is maintaining its surveillance of important changes in prices, costs and profits in the economy, will continue to conduct investigations and issue reports of particular price and income increases and inform the public and governments of the relevant facts. With the termination of the price restraint criteria and the associated wage and salary guideline on Dec. 31, 1970, these reviews will not, however, be conducted within the context of specific price and pay criteria as in 1970.

Mr. Chairman, the White Paper, "Policies for Price Stability" which was published in December, 1968, and which envisaged the creation of the Prices and Incomes Commission, pointed out that,

> "the present policy tools are not sufficient to resolve the very real conflict that exists at the present time between the objectives of maintaining high level employment and restoring the price stability that is necessary for sustained economic growth."

Since it began its work, the Commission has been carrying out a comprehensive and far-reaching research program into every aspect of the inflationary process in Canada. The Commission and the Government remain convinced that there is an urgent need to find more effective and less costly ways than are now available for dealing with the threat of a recurrence of inflation. The Commission intends, therefore, to press ahead towards the completion of its program of research studies so that its findings and recommendations can be made public during the course of 1971.

Mr. Chairman, perhaps this is enough by way of introduction. I have with me my colleagues Mr. Barrow, Mr. Freeman and Mr. Haythorne, as well as Mr. Berger, the Secretary of the Commission. We will try and answer any questions that you may have.

Prices and incomes commission

Commission des prix et des revenus

For Release at 12:01 p.m. EDT

West Memorial Building
344 Wellington Street
Ottawa, Canada
K1N 8V2

Telephone: 995-6357

Address delivered by
John H. Young
Chairman
Prices and Incomes Commission
to the
Association of Professional Economists
of
British Columbia
Wednesday, April 28, 1971

Vancouver, B. C.

INFLATION AND UNEMPLOYMENT

A centenary year is a good time to reflect on what has happened in the past and to consider what might be done in the future. This is what I would like to do in discussing inflation and unemployment.

It is just 10 years ago that a group of us from business, the trade union movement, government and the University met out at the campus on Point Grey for a series of Saturday morning conferences on unemployment. As you may remember, the winter of 1960-61 was the worst winter of unemployment in the post-war period and then, as now, there was a good deal of questioning about the objectives and the performance of the economic managers.

Let me remind you of what had gone before. We had had a recession in 1954 and there were those who felt that this foreshadowed an extended period of bad times. This proved to be an inaccurate forecast and it was not long before the economy changed direction. Then, as now, people wanted to get the economy back on to a path of strong but sustainable economic expansion. The attempt to do this was not successful. Well before the economy reached the low levels of unemployment of the early post-war years, or the low levels of unemployment achieved in more compact, homogeneous economies, demand pressures in some parts of the country had set off substantial price and cost increases.

The concern generated by this outbreak led to monetary and fiscal restraint, and this, in addition to the cyclical forces at work during the period, led to the recession of 1957-58.

This boom of the mid-fifties was an important milestone in post-war history. This was the first time that an outbreak of inflation in Canada appears to have generated the expectation of more inflation to come. In many ways it was surprising that the public's lack of responsiveness to price increases had taken so long to change, but after the post-war and Korean inflations and more than a dozen years of observation that what went up rarely came down again, the public had finally become accustomed to the idea that inflation today probably implied inflation tomorrow. This was one reason why in 1957-58 there was a period when unemployment was rising and prices and costs were continuing to increase. This provided the basis for the view held by some that North America had joined parts of Europe in suffering from a form of "cost-push" inflation and that traditional remedies were no longer appropriate.

Whether appropriate or not, or whether judiciously used or not, the traditional instruments of policy killed, or more accurately over-killed, that particular bout of inflation. The recession of 1960-61 which provided the background for the meetings at the University of British

Columbia 10 years ago followed hard upon the abortive expansion of 1959 and by early 1961 there was general agreement that the central issue was how to encourage economic expansion.

Even then, however, enough of us at these meetings had been struck by the experience of 1955-58 to be concerned that care should be taken in the subsequent expansion to avoid a repetition of the events through which we had just passed.

We all know what happened. The Canadian public was fed up with unemployment and as the expansion moved forward without any sign of serious price and cost problems, the urge was to press onward and upward to see how much could be got out of the economy in the way of employment and output.

Thus, about a decade after the previous outbreak of price and cost increases, the same problem was encountered again in 1965 and 1966. As in all such episodes the level of demand pressure was not the same in all parts of the country nor were all industries affected equally. What happened was that in some sectors of the economy firms were able to expand their sales rapidly. This encouraged them to hire more workers to produce more output and undertake additional construction to expand plant capacity.

As they encountered shortages of labor specially suited to their kind of work, employers were prepared to bid up the price they paid. As this process of bidding for new resources was getting under way, the strength of market demand led many firms to make upward adjustments in the prices of the products they sold. Employee groups, faced with a buoyant demand for their services and seeing prices respond to higher demand, were encouraged to press for substantially larger wage increases, the more so as the profits of many firms had increased sharply as a result of the rise in output.

Thus, well before the economy had come close to what most people thought was an acceptable level of high employment, over-heating in particular sectors of the economy began to occur and gave rise, after a lag, to substantially higher price and cost increases.

What followed is recent enough not to need an extended description. When it became apparent that the rate of price and cost increase was accelerating, steps were taken to restrain demand. This first attempt in 1966-67 was a rather cautious one, the hope being that if some cooling off were allowed to occur this would be enough to bring about a reduction in the rate of inflation. It turned out that this was not sufficient and when demand picked up again, partly as the result of developments in the United States' economy,

the inflation developed additional momentum. Thus, when more decisive steps were taken late in 1968 to curb public and private expenditure, they were taken in the face of strongly entrenched inflationary expectations.

I shall come back in a minute or so to the lessons to be derived from the experience we have had with restraint in various forms since 1968. There are, however, other lessons to be learned from the way in which we got into difficulties in the mid-fifties and mid-sixties and the way in which past experience has narrowed the choices open to the authorities.

One important group of those who are critical of the restraints imposed in the recent period is of the view that the right response to an upsurge of prices and costs encountered as the economy expands is to accept this as part of the price of high employment. This was a widely held view not many years ago and it is worth looking at it carefully to see to what extent it provides a sound guide to policy. Clearly, if a choice were available between accepting a measure of inflation in return for maintaining a higher level of employment, this would be the choice favored by most people.

There are plausible reasons for thinking that an outburst of unanticipated inflation in an economy which has become used to reasonably stable prices would be accompanied, at least initially, by a rise in employment to some new, higher level. Suppose, for example, that prices had been rising for many years at an average annual rate of only two per cent, and then began rising at a rate of (say) five per cent. With prices rising much more rapidly than expected, business firms would reap windfall profits. This would provide them with an incentive to employ more workers both to raise current levels of output and to expand their capacity further.

You will notice that these gains in employment result from the enhanced profitability of business operations when prices rise unexpectedly and when the trend of production costs - notably wage rates and interest rates - remains unchanged. Under what circumstances might these windfall profits, and the employment gains that result from them, be expected to persist for any extended period of time? It is conceivable that the public might have become so used to reasonably stable prices in the past that it would continue for a long time to regard substantial price increases as a temporary phenomenon soon to be reversed. So long as the public acted on this belief, the trend of wage rates and

interest rates might well continue to lag behind the trend of prices, businessmen would continue to earn windfall profits, and the initial rise in the level of employment would be maintained.

If, on the other hand, the public should come to believe that prices will henceforth continue to rise at about five per cent a year, a corresponding upward adjustment of interest rates and of the average size of wage and salary increases is likely to occur. Thus businessmen will find their windfall profits evaporating even with prices continuing to rise substantially. As profit levels revert to normal, so will levels of output, investment and employment. The behavior of the real economy is likely to end up much the same whether prices are rising at five per cent a year or two per cent a year, once the public has fully adjusted to the situation. In other words, when inflation is fully anticipated it is no longer possible to maintain higher levels of employment and output than could be achieved under conditions of reasonable price stability.

Now not all adjustments in the real world take place smoothly and completely. Those who argue that it should still be possible under present day conditions to obtain some additional employment and output by accepting somewhat higher rates of price and cost increase than in the

past, are counting on the fact that not everyone will be alert enough to see what is happening or capable of adjusting fully to it. If this is the case, it is true that some stimulus to employment will persist from the differential income gains achieved by business firms and others at the expense of less fortunate groups in the community.

There are some awkward problems for governments in taking advantage of this possibility. If a government were in fact prepared to see prices rise at a considerably faster rate in the future than in the past, it might well be expected to admit this fact publicly and to make any necessary institutional changes to help people adapt to the new situation. Thus it might take steps to adjust welfare payments, pensions, interest rates and similar contractual obligations in line with rising prices. To do so, however, would virtually ensure that the public's anticipation of - and adjustment to - further inflation would occur very rapidly and very generally.

Indeed, there is yet a further complication. Would people believe that a decision to accept an average rate of price increase of four or five per cent a year, rather than reasonably stable prices, was the end of the matter? Might they not conclude that they were witnessing merely the first stage of a gradual upward ratcheting of the average size of price increases over time, and take protective action against

that possibility? Such an over-adjustment to rising inflation could well mean ending up with lower levels of output and employment than those prevailing at the start of the process.

It was considerations of this kind which played a major part in the decisions taken in Canada and the United States in 1968 to deal firmly with the latest bout of inflation. By that time, after more than three years of rising costs and prices, it was obvious that the public's expectations and behavior were becoming rapidly adjusted to the idea that inflation would continue. How else can we explain the level of wage and salary increases asked by employees and accepted by employers or how do we account for the level of interest rates at which people were still prepared to borrow? How, also, can we explain the growing tendency in 1968 and 1969 for lenders to insist on special protective arrangements in the form of equity participation or adjustable features before being prepared to buy long-term securities?

These developments not only made it essential to deal with the inflation but also ensured that the process of moving back to reasonable price and cost stability would not be an easy one. Thus, when the Commission arrived on the scene in mid-1969, the Government was prepared to give its

strong support to any initiatives on our part to help ease the transition, such as the price restraint program launched in 1970 with the backing of the business community. This program was intended to supplement monetary and fiscal action by bringing direct restraint to bear on price and cost increases. The sooner the rise in prices and costs could be slowed down, the sooner expansionary policies could be resumed and employment opportunities improved.

Let me conclude with a word about our policy options for the future in the event of a renewed threat of severe inflation.

As the Commission has pointed out on a number of previous occasions, our present situation still requires a further significant moderation of wage and salary increases, adequately reflected in the trend of prices, if the country is not soon to be faced with a set of unpleasant alternatives. Few would be in favor of aborting the expansion and prolonging the period of unemployment and foregone output. There would also be understandable and well-justified worries about resort to some form of direct controls over prices and incomes. The third alternative, accepting more rapid and more chronic inflation than in the past, may be one that will appeal to many. What was said earlier was addressed to this issue and I would like to return to it before closing.

The central question is whether abandoning the objective of reasonable price stability and accepting a significantly higher average rate of price increase would make it possible to have higher levels of employment and output. The answer turns in large measure on whether we are talking about the short run or the long run.

Over the short run there are enough people who either could not or would not change their behavior to make it possible to get a bit more out of the system. Remembering the speed at which behavior was adapting to inflation two or three years ago, it is doubtful that much would be gained for very long. What would likely happen is that behavior would adapt or perhaps over-adapt to the possibility of further inflation to come, and some restraints would be required to avoid acceleration.

If one were prepared to accept acceleration of the rate of increase in prices and incomes it would be possible to continue to enjoy higher output and employment, but it is evident that such a process could not go on for very long.

In brief, then, the acceptance of inflation would not give us additional jobs over any extended period. Moreover, it would raise serious difficulties in the government's relations with the public. If the government were unprepared

to admit that it had accepted a more rapid rate of price increase, and were unwilling to adjust welfare payments, pensions, interest rates and so on, it would be open to the charge of misleading the public and failing to protect those least able to protect themselves. If, on the other hand, the government were to admit openly that a fairly high rate of price increase were to be expected and adjusted its institutional arrangements accordingly, the public's reinforced anticipation of future inflation would invite the kind of cost and price escalation we are witnessing in some European countries and have already observed in this country's construction industry.

Our task, then, is not to learn to live with inflation, but rather to find how to achieve and maintain an acceptable level of employment without running into the kind of price and cost increases which prevent this level from being sustained.

- - -

For immediate release
May 20, 1971

ECONOMIC COUNCIL OF CANADA

PRESS RELEASE

The Economic Council of Canada released today a Staff Study entitled "Productivity Change in Canadian Mining Industries", by John Dawson.

This study of Canadian mining was undertaken to provide background information and analysis for the Seventh Annual Review, "Patterns of Growth", which attempted to clarify the basic elements of growth in major groups of industries over the past two decades. The Seventh Review pointed out that output of the mineral industries increased over the two postwar decades at an annual average rate of 8.5 per cent, compared with slightly over 4.5 per cent for the whole economy. It cautioned, however, that widespread attention focused on the rapid growth of "labour productivity" in mining could be misleading because these industries have for some time been very capital-intensive and have become much more so during the postwar period. Under those circumstances, it was important to relate output increases more adequately to the increases in all resources used.

This Study examines the growth of "factor productivity" -- that is, the increases in output other than those accounted for by the changes in labour and capital inputs -- in the mining sector as a whole and for individual subgroups of mining industries.

2-2-2 xx industries.

Dr. Dawson points out that the capital per employed person in 1967 dollars increased from less than $25,000 in the early postwar years to more than $100,000 in recent years, with a particularly large rise in the 1960's. As a result, the rate of growth of factor productivity, which had averaged more than 4 per cent per year over the period 1947-57, dropped to a negligible rate of increase over the period 1957-68. The Study goes on to examine factor productivity increases for major groups of mining industries over the period 1957-68, and finds that the rates of increase were small for most of them. For the largest group -- metal mining -- there was no increase, although one of the industries in this group -- iron mining -- showed a substantial increase. In the mineral fuels group, the rate of increase in factor productivity for the large crude petroleum and natural gas industry was also relatively low in 1957-68.

A number of reasons for the recent slow rates of productivity increase are suggested. There are long lags between the build-up of investment, including that entailed in exploration, and the subsequent increases in production. In essence, the process that is examined is a dynamic one in which there is a creation of capacity to meet future, rather than merely current, demands. This is a significant aspect in industries such as potash and crude petroleum and natural gas. In addition, developments tending to increase factor productivity may be offset to a considerable extent by the

[illegible]

[illegible]

[illegible]

greater amounts of capital employed in exploration and development of lower quality, deeper, or more remote mineral or oil and gas deposits.

The author concludes that the longer-run employment effects of mining activities are not great, although increasingly skilled manpower is required. While there are considerable employment effects during the construction stages, the general increases in employment in mining are not likely to be very significant. Employment may increase in some mineral industries, but such increases will likely be largely offset by further declines in employment in gold mining and in Nova Scotia coal mining. These two industries still accounted for 20 per cent of total mining employment in 1967.

The way in which the mineral industries develop is of special significance to particular parts of Canada, including the Northwest Territories, the Yukon and remote areas in the provinces, because they represent practically the only basis for commercial activity in these areas. New capital-intensive mining developments in remote areas, although not employing large numbers of workers beyond the exploration and development phases, will continue to add new dimensions to the economies of these areas.

Prices and incomes commission

Commission des prix et des revenus

Prices and incomes

For Release at 3 p.m. EDT

West Memorial Building
344 Wellington Street
Ottawa, Canada
K1N 8V2

Telephone: 995-6357

Address delivered by
John H. Young
Chairman
Prices and Incomes Commission
to the
Edmonton Rotary Club
Thursday, July 22, 1971

Edmonton, Alta.

but rather to press ahead and attempt to put together a narrower arrangement limited initially to restraining increases in prices. The National Conference on Price Stability held in February, 1970, established a set of criteria for evaluating price increases and this agreement was endorsed by a conference of First Ministers in the same month. This enabled us to call upon the business community as a whole to observe these criteria and we established a Price Review Division to maintain surveillance over price increases and to carry out inquiries in particular cases.

Within the limits imposed by the nature of the agreement, the 1970 price restraint program achieved what it set out to do. At the end of the year of price restraint our staff were able to identify around 100 cases in which proposed price increases of some significance had been reduced, postponed or not made at all. It is difficult to quantify the over-all effect of this program. But in combination with soft market conditions, the appreciation of the exchange rate and the price war among grocery chains it was one of the contributing factors which made the rate of price increase in Canada in 1970 the lowest among industrial countries.

It had been generally recognized from the outset, however, that unless increases in costs came under restraint as well, any effect of the price restraint program was likely to be limited. We were not able to obtain any effective support for wage and salary restraint from the

union movement and in the end we had to resort to a unilaterally suggested upper limit of six per cent. There are differences of view as to how effective this was in limiting wage and salary increases, but even those who have the greatest faith in this kind of appeal would admit that the results were modest. With the termination of the price restraint program at the end of 1970, the Commission stopped assessing price and income increases against specific criteria, although we have continued to issue fact-finding studies.

In looking back over the limited success of the Commission's efforts to help bring the inflation under control with as little unemployment and loss of output as possible, it is easy to conclude that it might have been better to have tried something less ambitious. The fact remains, however, that there are lessons to be learned from the effort that was made. One of the most important of these lessons is that "fine words butter no parsnips". General appeals for restraint by public figures or general expressions of goodwill by representatives of interest groups are unlikely in themselves to lead to substantial results. We in the Commission were never of the view that much could be accomplished by anything less than a closely worked out agreement, with general observance of the resulting standards for price and income behavior ensured either through discipline of their members by the groups involved or through resort to government sanctions. The principal difference between an agreed restraint program of

the kind we had in mind in 1969 and a mandatory control system is in the degree of reliance on compulsion for its enforcement. The more co-operation, the less the need for coercion; but either way any system of price and income restraint must be made generally effective in its application or the growing inequities created will soon undermine it. Similarly, no system of restraint, whether relying largely on co-operation or largely on the force of la can hope to succeed unless it is maintained and phased out during a period in which demand pressures in the economy are not excessive. In short, a price and income restraint policy can serve only as a supplement to, not as a substitute for, effective demand management through monetary and fiscal policy.

While our principal concern has been with inflation as a problem affecting the whole economy, the detailed administration of last year's restraint program brought the Commission into direct contact with the special problems encountered in particular areas of the economy. Very early in the day it had become clear to us that the construction industry raised problems of particular difficulty for the control of inflation and that it was regarded by many as a major disturbing influence on wage and salary settlements throughout the country. It may be useful, therefore, to take a few minutes today to talk about some of these special problems found in the construction industry and their possible causes.

There is no great mystery about why the construction industry has acquired such a notorious reputation in the public mind as a pace-setter in the inflationary process. In recent years wide publicity has been given to construction labor settlements in which one union after another has obtained wage rate increases far larger than those obtained by the great majority of workers, often of the order of 15 to 20 per cent a year or better. In some cases these spectacular settlements have followed prolonged work stoppages. The public has been puzzled by the fact that such large wage increases could be obtained under conditions of continuing high national unemployment and often in localities where the local construction work force has been far from fully employed. It is not surprising, therefore, that the impression has been created of relentless union power extracting enormous wage increases from helpless employers regardless of economic conditions, resulting in soaring construction costs and creating great dissatisfaction among less favored employee groups.

To what extent is this impression of what has been happening to wages and costs in the construction industry supported by the facts? It must be admitted at the outset that the supply of reliable information about developments in the construction industry in Canada leaves much to be desired, in part because of the inherent difficulties of measurement in such a complex and diverse

area of economic activity. So far as the trend of average wage rates is concerned no comprehensive statistics are available on the average size of wage increases obtained by construction trade unions under new contract settlements. The Department of Labour does publish, however, a statistical series showing the average wage rates prevailing in the autumn of each year by trade and by locality. It is interesting to examine the behavior of the average wage rate prevailing for all construction trades over the country as a whole. Over the years 1961 to 1965 inclusive the average wage rate in construction in Canada increased by something like four per cent a year. In 1961 the increase was only two per cent and even as late as 1965 it was still only five per cent. Over the period 1966 to 1969 inclusive the annual increases were substantially larger, in the range of eight to 9½ per cent. In 1970, the most recent year for which figures are available, the average increase was no less than 17 per cent.

It seems clear that for the decade as a whole construction wage rates have risen at an appreciably faster pace than those in manufacturing and most other industries with the relative gains in construction wages being particularly striking in the late '60s and in 1970. In each of the last four years, for example, average wage rates in manufacturing have risen by something less than eight per cent annually.

It is possible that the relative increase in construction wage rates gives a somewhat exaggerated impression of what has been happening. Construction workers do not seem to have won as large improvements in fringe benefits in recent years as have industrial workers. It is also the case that annual increases in construction wage rates are a relatively poor guide to annual increases in the earnings of construction workers. This reflects the typically wide variation from year to year in the amount of overtime worked and in the continuity of employment in the industry. In 1970, for example, although the average wage rate in construction was 17 per cent higher than a year earlier, the rise in average hourly earnings in the industry was about 13½ per cent and the rise in average weekly earnings only about 10½ per cent.

When all these qualifications are taken into account, however, it still seems to be the case that in recent years the average compensation received by construction workers has been rising substantially faster than that of most other employee groups.

To what extent has the impact of these unusually large wage gains on the cost of construction been offset by improvements in productivity or by a narrowing of contractors' profit margins? Unfortunately little firm information is

available for a basis on which to answer such questions. Extremely difficult problems are encountered in attempting to measure the physical volume of output of the construction industry, the average numbers employed or man-hours worked, the average gains in productivity and trends in profitability. Even if the average rate of productivity improvement in the industry since the early 1950s has been, as some believe, as high or perhaps higher than that for non-farm business as a whole, it is clear that such gains fell far short of increases in hourly earnings. The National Accounts, which provide estimates of the value of new construction expenditures both in terms of current dollars and of constant 1961 dollars, imply price level increases since 1961 of about 40 per cent for residential construction and of about 33 per cent for non-residential building. Although the order of magnitude of these cost increases may be in some doubt, it seems clear that the rise in construction costs in many parts of the industry has been substantial and is still continuing.

No doubt a number of factors must enter into any plausible explanation of the behavior of construction wage rates since the mid-'60s. One such element was undoubtedly the extremely strong upsurge in construction outlays and hence in the demand for construction tradesmen which occurred during the period 1964 to 1966 inclusive. In each of these

three years the level of spending on non-residential construction in Canada moved up by roughly 20 per cent. This is the area of construction which is most heavily unionized and which makes the heaviest demands on the limited supply of skilled tradesmen. These workers are covered by a multiplicity of local contracts applicable to particular trades, which run in many instances for terms of three years or even longer. The tremendous upsurge in demand for non-residential construction which began in 1964 was accompanied initially by at least as strong a boom in residential construction, although outlays in this area rose less vigorously in 1965 and levelled off in 1966.

Even so the magnitude of the increase in construction demand was certain to lead to a major bidding-up of construction wage rates, though in many cases the full effect was bound to take a considerable time to develop because of the high incidence of long-term labor contracts. Substantially larger wage increases were obtained initially by non-union tradesmen and by unions whose contracts were expiring and this created growing wage disparities between such groups and other workers whose contractual rates of pay had been established at an earlier date. The fact that the full impact of cost increases lagged so far behind the upsurge in demand also meant that there was a very sharp initial rise in the average profit margins of contracting firms.

In the years since 1966, however, increases in the total volume of construction spending have been relatively modest and indeed at the national level the physical volume of construction activity appears to have remained substantially unchanged on a high plateau. This is not to say, of course, that there have not been significant ups and downs in particular types of construction activity and in particular areas of the country.

It seems plausible, however, that in considerable measure the construction wage rate increases which have occurred since 1966 represent a lagged reaction to the preceding upsurge in demand, the disparities it created and the expectations generated by economic events in the interval. Among these influences on recent contracts must have been the sharp upsurge in overtime earnings in the mid-'60s and the substantial increases in the cost of living which have occurred since.

This is by no means the whole story, of course. Many observers familiar with the sharp ups and downs in activity which have been traditional in the construction industry have emphasized the extent to which its behavior reflects a reaction to chronic insecurity. In an industry where individual contracting firms appear and disappear as rapidly as they do in construction, it is not surprising that when times are good many firms are impelled to charge

all that the traffic will bear. Nor is it surprising that construction workers, who are continually being laid off from one job without knowing where they will find the next one and who have experienced prolonged periods of under-employment, should feel impelled to push up their wage rates to the maximum whenever they can.

It is also clear that the unions in some building trades have made significant gains in recent years in organizational strength with a higher proportion of tradesmen as union members than was the case a decade ago. It also appears that in many cases the bargaining strength of construction unions has been used with greater vigor. Contractors' associations, on the other hand, seem to have lagged behind in developing and exercising bargaining strength, although with the current trend toward province-wide bargaining this situation may be on the verge of changing.

Whatever the relative importance of these various influences, it is hard to deny that the relative increase in construction labor costs in recent years has been substantial and that it must entail significant economic consequences for both employers and workers in the industry. It is commonplace that much of the demand for construction, including that of public bodies and large industrial concerns, is rather unresponsive to cost considerations in the short

run. It is also true that the industry, by its very nature, is sheltered from foreign competition. Even so, however, it is difficult not to believe that the extent to which wage rates have been pushed up in the industry has been pricing some construction projects - and some construction workers - out of the market. Some familiar examples come to mind. Many operations formerly performed on construction sites by tradesmen have now been supplemented by the assembly of prefabricated items manufactured elsewhere. Maintenance and construction jobs formerly performed by outside construction tradesmen are now done by the regular staff of large industrial firms. For some kinds of building projects contractors employing union tradesmen are beginning to find themselves unable to bid competitively against non-union contractors. Over the last four years there has been a progressive decline in the average number of hours worked per week in construction and a substantial rise in the average number of unemployed construction workers.

I am very much aware of the deficiencies of this sketch of the problem of rising costs that has arisen in the construction industry in recent years. There is a great deal more that we need to know in order to identify with any certainty the major causes of the industry's present malaise or to prescribe appropriate remedies.

A good deal of effort is now being devoted to this problem both within the industry and elsewhere, and given the size and strategic importance of the construction industry, it is very much in the interests of the country as a whole that these efforts be pursued vigorously. There are many thoughtful people in the industry who are increasingly concerned about its future health if recent trends continue. This in itself, I would suggest, is a hopeful sign.

This is the second time I have had the pleasure of addressing the Empire Club. In such a situation, there is perhaps a natural tendency for a speaker to look over what was said before to see how far it will be necessary to explain any alteration of views. There was some relief in finding little to change after two years but by that very token I was led to reflect on some of the things we on the Prices and Incomes Commission have learned in the interval. This provides the substance of my remarks today.

Let me begin by reviewing the three topics discussed two years ago under the title, "What Price for Price Stability?" The first point made was that the case for tolerating inflation and learning to live with it was a weak one. The Commission's view on this subject has not changed.

The second point made was that the process of controlling an inflation of the kind existing in 1969 was going to be a long and painful one unless an assist could be given by incomes policy. The events of the last two years have only reinforced this view.

Finally, it was argued that the kind of initiative which we proposed in 1969 could provide help in dealing with the problem.

That initiative had many similarities to the one recently undertaken by the Government of the United States. We sought, as they have, to obtain broad support among the major economic groups for agreed limits on increases in wages and salaries, prices, rents, professional fees and so on. While this was often described as a voluntary scheme, it was envisaged from an early stage that governmental intervention on a significant scale would be required to ensure that the program was sufficiently comprehensive and effectively administered.

The crucial difference between the effort made in this country and the present U.S. program is that the Americans acted at a time of crisis with a strong national consensus and imposed an initial freeze under the force of existing law. Even with all that in their favor, it is evident that the task is not proving to be an easy one.

This leads me to the first point I wish to discuss. The difficulty of obtaining a national consensus was the first lesson we were in the process of learning two years ago. Many feel that this is simply a matter of persuasion. If only the public could be made to understand that under certain circumstances the acceptance of a set of rules limiting price and income increases can be helpful in achieving a better

economic performance, then a consensus should be relatively easy to obtain. Others are of the view that it is the force of economic events rather than persuasion which makes possible widespread public support for measures of this kind.

The recent experience of the United States provides some support for the latter view. For almost three years leading figures in the U.S. Administration took the position that price and income controls were both ineffective and undesirable, and did their best to persuade the American people of this view. As events developed, with domestic inflation showing few signs of abatement and the international position of the United States worsening rapidly, there was a rising tide of demands for action. In the end, the Administration abandoned its attempts to persuade the public that direct intervention was not required and took steps in the direction of controls which were stronger and more decisive than most of its critics had been demanding.

A second point arising out of our experience in running the price restraint program and in the work we have done on future contingency plans is that there are many difficult issues to resolve in the application of a price and income restraint program to a complex market economy. This came as no surprise to us nor to those in the U.S. Government who have been responsible for setting up their program.

All professional economists are exposed at some time or other to the thoughts of the father of the science, Adam Smith, and many of them share his scepticism about direct governmental intervention. Thus the following comment from the Wealth of Nations, written 200 years ago, often strikes a responsive chord:

> "The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it."

A copy of this statement should perhaps be included in the training kit of all incomes policy apprentices. The economic system of a modern industrial country is a highly complex organism which at any point of time is responding to past changes in the forces acting upon it, is beginning to respond to new forces and is ready to react in the future to forces which have not yet come into play. Direct intervention

in this process through prices and incomes policy cannot be made sufficiently flexible and subtle to reproduce these results. Relative prices and relative incomes move differently under a system of price and income restraint than they would in its absence, and in time the allocation of resources will begin to change accordingly. This will entail some costs in terms of economic efficiency.

These costs would be relatively low when a system of price and income restraint was first introduced but would tend to grow over time as the system failed to reproduce in detail the kind of subtle response induced by the price system. If, however, the program of restraint were not kept in effect for too long, and if it were able to respond at least in part to the economic forces acting on the system, then the costs of such a policy might be fairly low.

These are not the only costs of using incomes policy. A price and income restraint program limits the freedom of employers and employees to set wages either under collective bargaining or under other arrangements. Similarly, it limits the freedom of those making business decisions to determine at what price they will sell the goods and services they have produced. Such an interference with private decision-making imposes political and social costs which are additional to any economic costs.

Given that the past record of incomes policy in a number of countries of the world is to say the least a bit chequered, it is perhaps surprising that incomes policy is kept in the arena. The answer is probably quite simple. Faced with an inflation which has developed considerable momentum and vigor, governments are often confronted by a short-run choice of alternatives: one, to allow the inflation to continue unchecked; two, to have a prolonged period of high unemployment; or three, to try to get some contribution from incomes policy in reducing both inflation and unemployment at the same time.

A third lesson which emerges from our experience over the last two years is that basic differences of view about the causes of the kind of inflation we have been experiencing recently need not lead to differences of view about the usefulness of incomes policy. This is a surprising conclusion which requires some explanation.

First of all, it should be said that there is little difference of view when the inflationary situation is a straightforward one of excess demand pressure on the economy. There may not be any precise agreement on what constitutes over-full employment, but inflations such as those of 1955-57 or 1965-66 do not lead to differing interpretations. When, however, a high level of price and income increases

persists over an extended period of economic slack, the arguments begin.

It used to be thought that those who saw the explanation of this phenomenon as basically a problem of excess demand in the past and anticipation of high demand in the future would have a different prescription for dealing with it than those who placed stress on increases in costs and prices brought about through the market power that labor unions and corporations now possess. Those supporting a demand interpretation could be expected to argue in favor of the use of demand policies alone to bring the economy around, while those supporting a cost-push interpretation would, in general, favor direct governmental intervention in one form or another to restrain price and income increases.

As our work progressed and events unfolded, it became increasingly clear to the Commission that in modern economies the decision to use or not to use incomes policy did not depend on holding any special view about the causes of persisting inflation. In particular, we came to the conclusion that it was not necessary to believe that the market power of labor unions and large corporations was a crucial factor in bringing about excessive wage and price increases in order to adopt the position that under some

circumstances incomes policy could make a contribution to the control of inflation.

Those who hold the market power view of inflation believe that if the economy were made up of competitive firms and competitive markets for labor, then once the pressure of demand was removed, prices and incomes would stop rising and the inflation would come under control. This has not happened. It follows that it is the absence of competition, i.e., the market power of unions and corporations, which enables them to avoid reacting to changes in market conditions. For the sake of brevity I have caricatured this line of reasoning, but this is the bare bones of it.

Now, if one has in one's mind the most simple example of the traditional competitive firm -- a relatively self-sufficient family farm -- it is clear that the reaction to a change in demand is as straightforward as an over-simplified demand-pull theory of inflation implies. A fall in demand on a competitive market for farm products would lead to a fall in prices. A farmer who owns his farm and operates with family labor and few non-farm costs might just as well keep producing since it is better to earn something than nothing. Thus output would remain high,

but prices would fall and the income of the farmer and his family would fall at the same time. In short, a reduction in demand would lead to a sharp response in the rate of increase of money prices and money incomes. There would be complaints about the instability of prices and incomes, but there would be no unemployment or significant loss of output as a result of bringing the inflation under control.

Once the enterprise becomes more complex, however, with inputs coming from several independent quarters, the reaction to a fall in demand after several years of inflation is quite different. Instead of prices falling sharply in the face of a decline in demand,and production being maintained by an equally strong fall in the incomes of those working, there is a tendency for prices to be maintained or increased while wages and salaries continue to rise. The result is a decline in the growth of output and a rise in unemployment.

It might be thought that this loss of output and rise in unemployment would not last long. After all, once it is clear that there are more people available for jobs than jobs available, it might be expected that competition among wage and salary earners for the existing jobs would lead to sharp downward adjustments, thus reinforcing the effect on prices of competition among firms to protect their share of a contracting market.

In fact, however, these adjustments do not occur at all quickly and smoothly in an economy which has developed considerable inflationary momentum. There are particular cases where the change in circumstances is sufficiently drastic to lead to major price and income adjustments. In general, however, even in those areas directly exposed to market forces, the response is much more sluggish, while in those sectors of the economy more insulated from the market, prices and incomes in many cases show even less response.

When people see an entrenched inflation persisting in this way well into a period of slack demand they are inclined to focus their attention on some well-publicized union wage settlements, or on the more noticeable increases in the prices of major firms, and to describe the process as one of cost-push resulting from the market power of major unions and corporations.

An alternative explanation of what we have been observing in the last two years or so puts much greater emphasis on the part played by institutional lags in the process of adjustment and by persistent expectations of continuing inflation. In 1969, after a period of over 35 years in which the price level has been moving in an upward direction, a period of nine years of uninterrupted

economic expansion and more than four years of rapid inflation, it was not to be expected that it would be easy to change people's view about the likelihood of future inflation.

The fact that you do not have to accept market power as the main explanation of continuing inflation to see a useful role for incomes policy is well illustrated by recent events in the United States. Prior to the decision of August 15th, one of the most forceful advocates of the market power diagnosis was our famous expatriate, the president-elect of the American Economic Association, John Kenneth Galbraith. As I am sure you all know, Professor Galbraith believes quite strongly that recent inflation is particularly associated with the price-raising activities of corporations and to a lesser extent unions. Over many months this view of the economy was rejected by the Nixon Administration and as recently as July 1971, a newspaper article by Paul McCracken, Chairman of the Council of Economic Advisers, described Galbraith's view of the nature of the price system as one still common among uneducated people and unusual only in being held by the President of the American Economic Association and in being described by him as new. Within a matter of weeks, however, the U.S. Government appeared to adopt Galbraith's policy prescription of wage and price control. Was this the result of an overnight conversion to a Galbraithean interpretation of the economy? The answer is clearly no.

The scheme introduced in the United States is a temporary one aimed in principle at virtually all wages and prices, with the degree of selectivity of control being dictated by administrative considerations. The predominant view held in Washington does not seem to have changed greatly, namely that recent inflation is primarily a reflection of continuing expectations of rapid wage and price increase drawn from past experience and only to a limited extent influenced by institutional developments.

The fact that the American program is temporary indicates the difference in interpretation. If one supports the market power view of inflation, then the problem can only be met on a continuing basis by a permanent system of controls, or by fundamental institutional changes which reduce the power of unions, corporations, professional associations and other groups to influence the determination of their prices or incomes. Such institutional changes may well be desirable on other grounds, but given the difficulty of altering the whole structure of our economy, are not likely to provide an answer in the near future. A Galbraithean view of the economy tends to lead, therefore, to a permanent system of controls, while the analysis of inflation of the U.S. Administration leads to a temporary program.

The difficulty of keeping these distinctions clear is well illustrated by the recent report of the Senate Committee on National Finance. There is much in this well-written report with which one can agree, including the Committee's view that given the present structure of the Canadian economy, there is need for greater realism about the level of unemployment consistent with economic stability. Their emphasis on the importance of recognizing lags in the response of the economy to changes in economic policy is also a lesson which bears repeating. My colleagues and I found the discussion of incomes policy much less satisfactory. While the Committee saw some possibilities for the limited use of incomes policy, on the whole they took a negative position towards guidelines and controls. This negative position was in part based on a strong dislike for direct interference in the economy but also in part on the mistaken view that "one basic condition for the use of peacetime controls would be the acceptance by the authorities of a cost-push inflationary diagnosis strongly related to the exercise of market power." Since the Senators are dubious about this explanation and instead stress lags, expectations and international influences in explaining the persistence of inflation, they conclude that there can be no strong case for controls. It will be apparent from my earlier remarks that the view of the inflationary process held by the Senate Committee does not necessarily lead to the Committee's negative conclusions on incomes policy.

Even if one takes the view that, with some exceptions, unions and major corporations are no more responsible for inflation than the rest of us, does it follow that their co-operation is unimportant in helping to make an incomes policy a success if a decision is taken to use it? The answer to that question is clearly no. Those who make decisions affecting a large number of prices and a wide range of wages and salaries are obviously in a crucial position to help or hinder the success of a program of direct intervention. We are seeing a striking demonstration of that in the United States.

When we met with business leaders at the end of 1969 and early 1970 to see whether they would support a program to restrain prices, even in the absence of comparable restraints on wage and salary increases, some of them said that this would be interpreted by the public as an admission of guilt on the part of the business community. These views did not prevail and we went ahead. I think it is a fair statement to say that the public did not in fact put this interpretation on business support for the program. They expected a measure of leadership from those in the community who were in a position to give it. While there was widespread disappointment that this initiative did not lead to a more comprehensive and effective set of arrangements, it was recognized that a genuine attempt had been made to contribute to the solution of the problem.

The aim was to help reduce the loss of jobs and output involved in getting the country out of a severe inflation. If the occasion should arise again, it is to be hoped that the lessons drawn from this previous experience and the renewed and expanded support of all groups in the community will lead to a more effective program for achieving this result.

- - -